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FINANCIAL TIMES

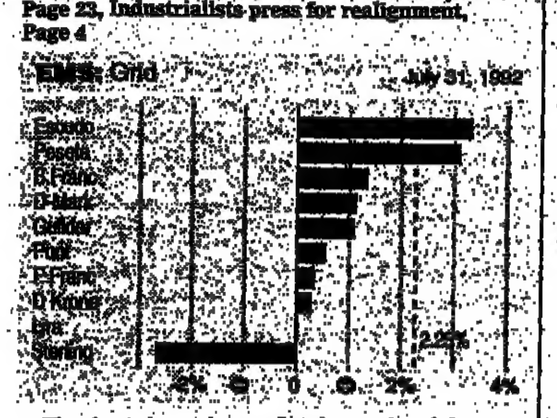
Monday August 3 1992 · EUROPE'S BUSINESS NEWSPAPER · D8523A

ANC starts week of disruption in South Africa

The African National Congress today begins a week of pro-democracy demonstrations, including a two-day general strike, in a test of strength with South Africa's white minority rulers. Page 12; Heart of the democratic struggle, Page 11

German inflation warning: Inflation in western Germany – key to the Bundesbank's interest rate policy – is not expected to be near the central bank's target of 2 per cent until after 1994, the Ifo economics research institute in Munich says. Page 12

European Monetary System: Sterling starts the week even more deeply entrenched at the bottom of the EMS grid. There is now a 2.75 percentage point divergence with the next-weakest currency, the Italian lira. In part, this reflects the market's uncertainty over prospects for economic recovery in the UK. But the lira was itself strengthened by the Italian parliament's decision last week to endorse stringent budget cuts. At the other end of the grid, the Spanish peseta continues to derive support from the Bank of Spain's recent decision to raise interest rates. Currencies, Page 23, Industrialists press for realignment, Page 4



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling, the Spanish peseta and the Portuguese escudo operate with six per cent fluctuation bands.

Arabs join Israeli government: Two Arab members of the Israeli parliament were made deputy ministers – the first time in 20 years that Arabs have been in the government. Page 3

WPP plan accepted: Shareholders opposed to a restructuring plan at worldwide media services group WPP, changed their minds after accepting that the banks were likely to put the company into receivership. Page 13

US rejects provocation: The US decision to send 2,400 troops to Kuwait this week is designed to send a warning to Iraqi president Saddam Hussein, but not to provoke him, US officials claimed. Page 3

Crédit Lyonnais to lead manage loan: The European Community has awarded Crédit Lyonnais of France the mandate to lead manage an Ecu500m ($363m) three-year loan. Page 15

Tax demand for Nissan UK: The UK Inland Revenue has issued estimated assessments for unpaid tax totalling £237.6m ($454m) against Nissan UK, former British distributor of Nissan vehicles controlled by Mr Octav Botnar. Page 4

Improvement for Nova: Alberta natural gas transporter and petrochemical producer Nova is emerging quickly from its 1989-91 over-expansion problems. Second-quarter net profits were C$41m (US$34.1m) a turnround from losses of C$6m a year earlier. Page 15

San Miguel lifts income: San Miguel Corporation, largest private enterprise in the Philippines, announced a 3 per cent increase in its first-half net income to 1.56bn pesos ($63.6m). The company has been cutting its labour force in unprofitable activities, particularly in some of its packaging lines. Page 15

Walbrook's last chance: Directors of Walbrook Insurance, UK insurance and reinsurance company with net liabilities of £170m, are expected to fight a last-ditch attempt in the British High Court tomorrow to stave off liquidation. Page 13

Risk to skin increases: The risk of children in the UK developing skin damage over a lifetime has increased by 10 to 15 per cent because of damage to the ozone layer, according to a study published today by environmental group Greenpeace.

Accountants may go public: The Institute of Chartered Accountants in England and Wales may open its disciplinary proceedings to the public after recent criticism over secrecy.

Directors' pay leaps ahead: Many UK company directors earning more that £250,000 a year receive substantial pay rises although their companies are performing poorly, a Labour Research Department survey claims.

Three medals for Unified team: Andrei Abduvaliyev won a gold medal in the Barcelona Olympics as the Unified team, made up of athletes from the former Soviet Union, swept the medals in the hammer. The 26-year-old from Tajikstan won with a throw of 82.54 metres, leaving European champion Igor Astapkovich with silver and Igor Nikulin with bronze. Olympics, Page 7

Always in touch: UK telephone operators BT and Mercury Communications may give their subscribers personal numbers from as early as next year on which they could be called at any telephone in Britain. Page 4

Electronics suppliers blamed for EC price variations

By Guy de Jonquières, Consumer Industries Editor, in London

LEADING suppliers of consumer electronics products are keeping prices artificially high in some European countries by restricting cross-border trade, according to two Europe-wide retailing associations.

One of the associations, Expert International, which represents 2,500 small dealers in 14 European countries, plans to ask the European Commission's competition directorate to take action to ensure free movement of products within the Community.

Mr Wim van den Toorn, Expert's managing director, says in a draft letter to the Commission that surveys by his organisation have found that the prices paid by its members for identical products vary by as much as 50 per cent across Europe.

He alleges that an authorised dealer who tried to sell products to an authorised dealer in another country "would experience a negative attitude from his supplier with practical consequences". The allegations come four months before the official deadline for the advent of the single market, which is intended to eliminate all internal trade barriers within the Community.

Sir Leon Brittan, the EC competition commissioner, has emphasised that competition from unrestricted flows of unauthorised "parallel" imports in the EC is essential to the success of the single market. Such imports should make wide price differentials unsustainable.

Mr van den Toorn said Expert and its members so far had not asked suppliers to supply products for sale in other countries. However, he feared that if dealers attempted to make parallel imports, suppliers would threaten to cut off future supplies of products and spare parts.

Mr Marcel Vloemans, head of Euronics, an association representing 5,000 electrical retailers in seven European countries, said his organisation had tried to buy products in low-price countries for sale in high-price ones and had been unable to do so.

Mr van den Toorn said Expert had discovered wide and consistent geographic disparities in trade prices for the consumer electronics brands stocked by its dealers. These are Philips, Grundig, Sony and Panasonic, made by Matsushita of Japan.

He said he had sought for more than two years to persuade these manufacturers to narrow the price differentials, but had so far made little progress. None of the companies said it was aware of Mr van den Toorn's approach.

He plans to ask the Commission to ensure that suppliers' dealership agreements provide for unrestricted trade between authorised dealers in different countries. Some agreements contained such requirements, but they were not fully effective.

Mr van den Toorn has sent copies of his draft letter to Philips, Grundig, Matsushita and Sony, asking them for comments by August 10, when he plans to send his letter to Brussels.

Flaws undermining EC's single market hopes ...Page 2

Dutch electronics group pauses for thought....Page 15

Italy ends link between wages and inflation

By Haig Simonian in Milan

AN AGREEMENT to end Italy's 47-year-old system linking wage rises to inflation was yesterday hailed by Mr Giuliano Amato, the new prime minister, as an important boost to the country's competitiveness.

Business leaders also welcomed the deal, which was hammered out late on Friday night at a meeting between ministers, trades unions and employers.

Mr Amato, speaking on state radio, appealed to investors to take heart from the agreement and have confidence in the Italian economy and the lira.

"The most important point for the Italian economy and for those who watch it from the international markets is that it must have a phase of tranquillity [to allow us] to work, produce, and become competitive again.

"From this point of view, what is decisive in this accord is what it makes possible for factories, companies, the industrial sector."

The lira has been under severe pressure for six weeks, reflecting investors' anxiety about economic prospects and fears of a possible devaluation. Central bank intervention to support the currency has contributed to a fall in reserves at the end of June to L79,383 ($69.1bn) against L86,341bn at the end of May and L109,442bn at the same time last year.

Abolishing the *scala mobile*, which has set inflation-linked wage rises for most of Italy's workers since 1945, was a central part of Mr Amato's attempts to reduce inflation from its current level of 5.5 per cent and lower the huge budget deficit. The government has set an inflation target of 3.5 per cent for 1993 and just 2 per cent for the following year.

Under the deal, workers, instead of looking forward to automatic wage rises in line with inflation, will get a small payment of L20,000 a month for 13 months, starting in January next year and lasting to the begining of 1994, including the normal Christmas bonus. Although still a regular increase, it is considerably less than rises under the *scala mobile*.

In return, the government has pledged to freeze public sector tariffs and to consider allowing workers to claim against tax for any unexpected future rise in the cost of living. Detailed negotiations on future wage levels will be taken up again in September.

"In a difficult situation this is the best signal we can give of a turnround," Mr Amato said after the signing.

Eliminating the system has been a long-standing aim of the country's employers.

Mr Cesare Romiti, chief executive of Fiat, Italy's largest private sector company, said the arrangements, details of which will be hammered out in September, were a vital step to improve the competitiveness of Italian industry.

Mr Luigi Abete, chairman of Confindustria, the employers'

Big stride down reform road for Amato............Page 2

Continued on Page 12

A young refugee from Sarajevo looks out of the bullet-scarred window of the bus that had been taking a total of 50 orphans on the first leg of their journey to safety in Germany. Two of the children were killed when the bus came under sniper fire after leaving the Bosnian capital.

Story, Page 2; Croatia goes to the polls, Page 12

Thai chief demotes military leaders

By Victor Mallet in Bangkok

MR Anand Panyarachun, the Thai prime minister, demoted the country's senior military commanders at the weekend for their part in the killing of at least 50 pro-democracy demonstrators shot by troops on the streets of Bangkok in May.

The long-awaited announcement followed a series of moves by Mr Anand and his cabinet to reduce military influence in politics and business, and fulfils Mr Anand's promise to deal politely but firmly with the generals who have held sway in Thailand for the past 60 years.

Over the past few months, the powers of the military establishment have been challenged and eroded by the middle class citizens of Bangkok at the forefront of the May demonstrations and who have backed Mr Anand's political and economic reforms.

But recalcitrant generals can still call on the support of shadowy rightwing organisations and powerful provincial politicians. Only the most optimistic commentators are ruling out the possibility of future military intervention in politics.

Mr Anand demoted Air Chief Marshal Kaset Rojananil, the supreme commander and head of the air force, to the meaningless post of "inspector general", while Gen Issarapong Noonpakdee, the army chief, became a deputy permanent secretary for defence affairs. Gen Issarapong's cousin,

Continued on Page 12

Major stresses commitment to maintaining strong pound

By Ivo Dawnay and Peter Norman in London

MR JOHN MAJOR, the UK prime minister, is willing to endure a "bitter autumn" of personal unpopularity as the price for sticking to the government's policy of keeping sterling at its DM2.95 parity in the European exchange rate mechanism.

According to Whitehall officials, Mr Major is determined to shake off the government's present embattled image over economic policy by making a virtue out of the government's anti-inflationary zeal.

He will present the Conservative party's annual conference in October with a vision of Britain having the lowest inflation rate among the world's leading industrial powers and – in time – interest rates below Germany's.

Downing Street officials at the weekend underlined that Mr Major and Mr Norman Lamont, the chancellor of the exchequer, will be unwavering in their commitment to a strong pound, even to the extent of keeping sterling pegged to the D-Mark in the event of a realignment of ERM parities or a revaluation of the D-Mark by Germany.

Signs that the government is prepared to take a stronger line in the battle against inflation came as a Mori opinion poll for The Sunday Times put Labour ahead of the Tories for the first time since the general election and registered a sharp decline in consumer confidence last month.

This week, Mr Michael Portillo, the chief secretary to the Treasury, will stress the government's determination to combat inflation through the control of public spending in letters to cabinet colleagues which will contain proposals for spending cuts in their departments.

About the only area in which there is any possibility of policy flexibility is the housing sector. While the Treasury insists that no moves to bolster the troubled housing market are planned, it is understood that contingency measures are being prepared.

Away from Whitehall, pressure continued to mount for action to combat the recession.

● Two economic forecasting groups predicted that national output will drop by about 1 per cent this year in contrast with the government's Budget forecast of 1 per cent growth.

● The Confederation of British Industry, the London Chamber of Commerce and the Institute of Purchasing and Supply, which represents the UK's purchasing managers, warned of worsening business conditions among manufacturers.

Fiscal boost sought, Page 4
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Austria	Sch30	Hungary	Ft162	Malta	Lm0.50	S Arabia	SR9.00
Bahrain	Din1.000	Iceland	IKr180	Morocco	MDh11	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.20	Thailand	Bht50
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000
Finland	FM10	Korea	Won 2500	Philippines	Pso45	Turkey	L6000
France	FFr8.50	Kuwait	Fils 500	Poland	Zl 16,000	UAE	Dh9.00
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es150		
Greece	Dr250	Lux	LFr60	Qatar	QR10.00		

CONTENTS

Italian party tries to patch up split

By Haig Simonian in Milan

ITALY'S Christian Democrat party starts one of the most crucial weeks in its history today as party leaders gather in Rome to try to paper over serious internal differences at their national congress.

The party moved quickly at the weekend to put forward Mr Emilio Colombo, a veteran member, to replace Mr Vicenzo Scotti, the Christian Democrat who resigned as foreign minister last week after less than a month in the job.

However, the appointment of Mr Colombo, 72, a former premier who becomes foreign minister for the sixth time, still leaves yawning gaps between the factions, which are likely to be exposed to the glare of publicity this week.

At the weekend, Mr Arnaldo Forlani, the former party secretary, withdrew his resignation in an effort to lower tensions. In-fighting over a successor to Mr Forlani, who had threatened to resign before, had become public, and may have been one of the factors behind Mr Scotti's heavily criticised decision to give up his ministerial post.

Mr Scotti's move was ostensibly a reaction to a new party rule that ministers should give up their parliamentary seats.

But Mr Scotti is close to Mr Giulio Andreotti's faction in the party, and his action has been interpreted by some as an attempt by the former Christian Democrat prime minister to exploit divisions within the party to his benefit. Mr Andreotti has denied such motives.

Rebuffed by the electorate in northern Italy and heavily tainted by the political corruption scandal now gripping much of the region, the party will seek to use this week's congress to regroup.

Speaking on Italian television, Mr Forlani explained his decision not to step down as a way of stimulating the changes in the party demanded by electors – such as greater accountability and transparency.

However, many younger Christian Democrats, notably the reformists grouped around Mr Mario Segni, who has pushed for constitutional change through referendums, will see this as yet another attempt to paper over divisions and keep the same faces in power.

Mr Forlani's step has already prompted Mr Mino Martinazzoli, a senior party member and more reform-minded candidate, to withdraw his bid for the party leadership.

Sarajevo sniper kills orphans on bus

A SNIPER killed two young children aboard a bus evacuating orphans from Sarajevo at the weekend, while Moslem forces battled to break the Serb hold on the besieged Bosnian capital, agencies report from Sarajevo.

The children were among 50 being taken from a local orphanage to meet German officials in nearby Fojnica on their way to refuge in Germany. They had been waiting for six days to be evacuated, unable to fly out because of heavy fighting.

UN peacekeepers in Sarajevo denied being asked to escort the bus, although the charity that organised the evacuation said such protection had been requested. A UN spokesman, Mr Mik Magnusson, later said on a BBC TV interview that the decision to evacuate the orphans into a war zone was almost "criminally negligent".

The UN compound in the city was itself attacked yesterday when shrapnel from an exploding mortar crashed through the headquarters building. Mr Magnusson had earlier warned that Bosnian forces were endangering peacekeepers by setting up weapons too close to their monitoring positions.

He said government forces had positioned two tanks just outside the headquarters, and mortars 200 metres from other UN positions in the city.

A protest was also lodged with the Serbs for firing back at well-marked UN positions, he said.

Throughout the weekend Moslem and Serb forces traded conflicting claims of military success around the city, each accusing the other of launching offensives and each claiming to have beaten back attacks.

Moslem forces have been trying to capture hills used by Serb gun batteries to pound Sarajevo, where 380,000 people are trapped.

In a BBC interview, Bosnian President Alija Izetbegovic said the west should arm Moslems to defend themselves against Serbs who outgun them.

"I ask myself sometimes, does Europe known what is going on here?" he said. "Do those responsible in Europe really know about concentration camps, about the mass killings [in Serb-held areas]?" he added.

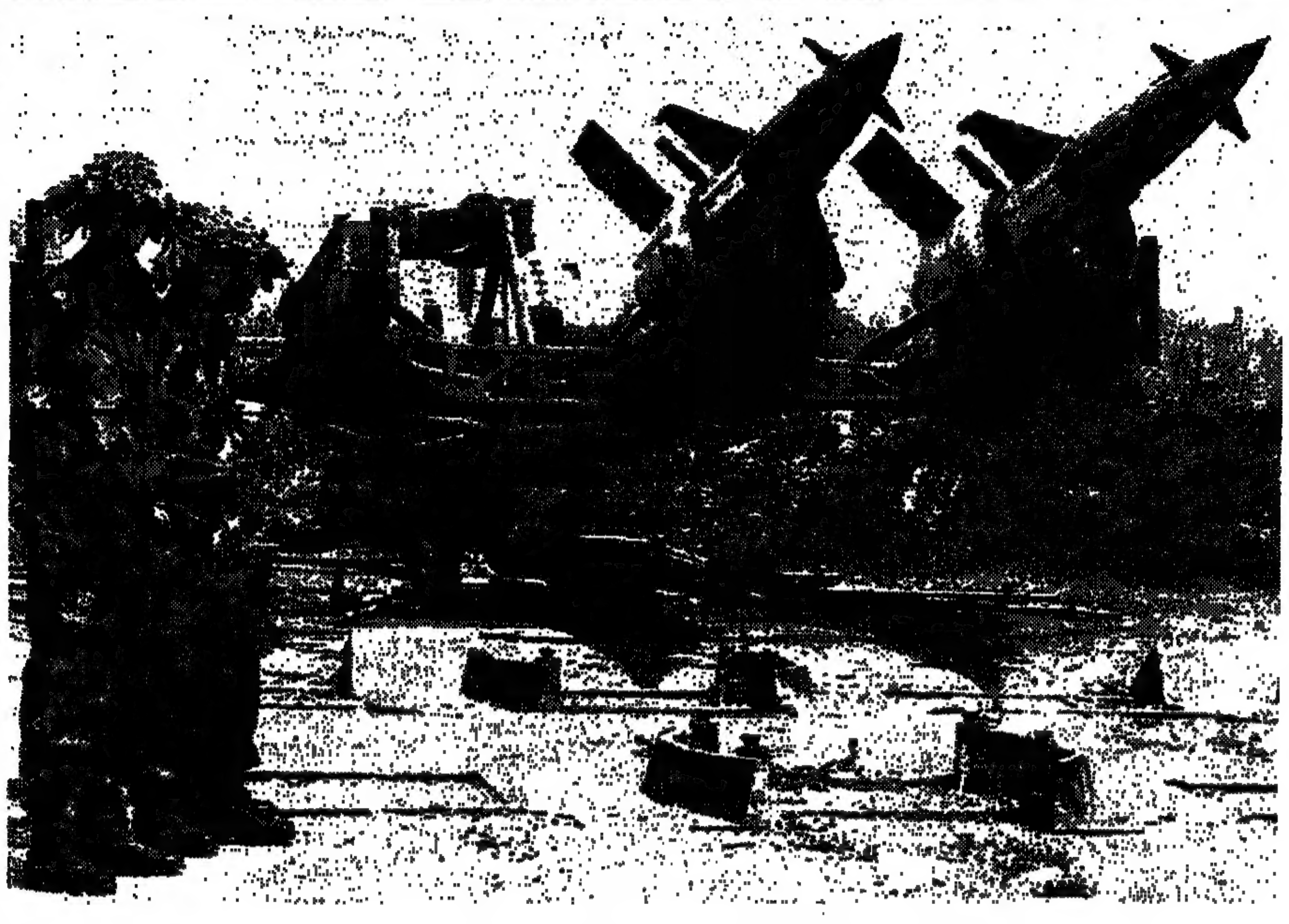
Bosnian Moslem forces said the besieging Serbs had mounted a comprehensive attack on the city, using artillery as a prelude to infantry advances, but had been blocked and even beaten back at some points.

Tanjug news agency said Moslem fighters had killed 150 Serb soldiers and civilians in fierce clashes during the past three days.

The Serb military command said it had inflicted defeats on attacking Moslem units, the most severe in the area of Ilijas 20km north-west of Sarajevo, Tanjug reported.

A Sarajevo newspaper and Tanjug quoted Moslem commanders as saying they had "liberated" the town of Trnovo 30km south of the Bosnian capital and made advances against Serb forces at other points around Sarajevo.

Tanjug said, however, that Serbs denied Trnovo had been captured.



Yugoslav army soldiers stand next to anti-aircraft missiles, part of the defence system for the capital, Belgrade

Newspaper strike suspended

WORKERS at Politika, Yugoslavia's biggest newspaper publishers, have suspended a two-day strike after Mr Slobodan Milosevic, Serbia's president, demanded reconsideration of a controversial nationalisation law, Reuter reports from Belgrade.

Politika's three daily newspapers appeared on newsstands yesterday, and the strike committee said its 15 periodicals would also resume work. The group's television and radio stations did not interrupt broadcasts.

The strike began on Thursday when the Serbian parliament voted to nationalise the publishers. Opposition deputies accused the government of seeking complete control over the press and threatened to boycott elections scheduled for the end of the year if freedom of the media was not assured.

Mr Milosevic asked parliament at the weekend to reconsider the law, saying experts believed that some of its clauses conflicted with the Serbian constitution.

Another big stride down reform road for Amato

Haig Simonian on the ending of wage indexation

THE agreement at the weekend to abolish Italy's *scala mobile* wage indexation system represents the second success in a week as the new prime minister, Mr Giuliano Amato, struggles to bring radical financial reform.

Struggling with a 16-seat parliamentary majority, Mr Amato turned the country's beleaguered economic position to his advantage in reaching the accord with unions and employers on revising the 40-year-old pay system, which links wage rises to inflation. He thus achieved what the much stronger government of his predecessor, Mr Giulio Andreotti, had failed to do in longer negotiations last year.

Coupled with his success in pushing through parliament a L30,000bn (£26.6bn) package of spending cuts and revenue increases last week, Mr Amato had a firmer foundation for his appeal yesterday to foreign investors not to sell the lira and to give his government time to push through crucial reforms.

Mr Franco Reviglio, the budget minister, described the government's approach as "shock therapy" to improve the competitiveness of Italian industry compared with its European Community partners. Italy needed a high degree of responsibility and a political consensus to avoid "a very serious financial crisis", he said.

Mr Amato still has much more to achieve if he is to restore confidence in the Italian economy and enable the country to meet its commitments under the Maastricht treaty for economic and monetary union. The agreements reached on Friday night have to be fleshed out, and some aspects of the deal, such as the public sector tariffs freeze, could conflict with other aspects of government policy, such as privatisation.

Bankers say selling public sector assets such as ENEL, the state electricity generating authority, will be much more difficult in the case of a tariff freeze, as that would limit the companies' profitability, making them less attractive to investors.

While last week's approval in the lower house of parliament for the government's emergency budget, designed to cut L30,000bn from the deficit, was a major step, the real battle for Mr Amato will come next month, when draconian measures are expected to try to reduce state spending.

How safe zones for Bosnians might work

By Robert Mauthner, Diplomatic Editor

CONFUSION continues to surround the concept of "safe zones" for refugees from Bosnia-Hercegovina, an idea spawned at last week's United Nations conference in Geneva on refugees in the former Yugoslavia.

With an estimated 500,000 refugees in the region without adequate shelter for the coming winter, and tens of thousands of others continuing to knock on the doors of other countries, a co-ordinated solution for the Bosnian refugee problem has become a matter of extreme urgency.

Rejecting the proposal by Germany, which has already taken more than 200,000 refugees from the region, that country-by-country refugee quotas should be established, most of the participants agreed that local and regional solutions should be found for the problem.

Both France and Britain have stressed that transporting refugees abroad could encourage the very process of "ethnic cleansing" – creating ethnically pure regions – for which the Serbs have been condemned by the international community. Moreover, that would make the return of the refugees to their homes, which everyone agrees should be the ultimate objective, much more difficult, it is argued.

However, treating the refugee problem "close to home" is easier said than done in a country where fighting is going on in widely dispersed localities and where clearly defined front-lines do not exist. It presupposes the setting up of safe zones, which are not only administered by the UN, but which require at least some military protection.

Since the concept of safe zones was not clearly defined even by those who proposed them at the Geneva conference, it is hardly surprising that many commentators initially saw them as similar to the Kurdish "safe havens" set up in northern Iraq after the Gulf war.

It has since become clear, however, that the main protagonists of the idea recognise the impracticality of such a solution.

The safe havens set up in northern Iraq were made possible by the co-operation with the US-led coalition of a neighbouring Nato ally, Turkey, which provided it with military air bases, and also by the comprehensive defeat of the Iraqi armed forces in the Gulf War.

In the case of Bosnia, however, a large number of troops armed with mortars and artillery, and backed by military aircraft based in Italy and on US and allied aircraft carriers in the Adriatic, would have to be provided for an indefinite period if refugee areas were set up in a war zone. That would be tantamount to a full-scale military intervention, which most western countries want to avoid.

What is envisaged, therefore, is to set up protected refugee zones either in regions of Bosnia which have not been affected by the conflict, or in Croatia, where UN monitors are already on the spot, or even on the other side of the Yugoslav border in neighbouring countries.

Building equipment outlook poor

THE European construction equipment market outside Germany will fall 18 per cent this year, according to a report which further underlines the combined effects of German unification and recession elsewhere, Andrew Baxter writes.

Corporate Intelligence Group of London, in a mid-term review this week, identifies Germany as the only market that will grow appreciably this year, with unit sales predicted to rise 16 per cent from 36,429 last year to 42,480.

The group's forecast for the European market overall this year remains unchanged at 5 per cent. But its forecast for Germany contrasts sharply with its prediction in the spring of a fall in demand this year. There is continuing "phenomenal" demand in Germany for wheeled loaders, mini-excavators and wheeled excavators.

The better-than-expected performance in Germany is balanced by predictions of much sharper declines in Italy, Spain, and France, where prospects have worsened over the past three months. And apart from Norway, where a marginal 1 per cent increase from a low base is predicted, all Scandinavia will fall further into deep recession.

Price flaws undermining EC's single market hopes

With internal borders soon to fall, why should the same electrical goods cost 30 per cent more in Spain than Germany, asks Guy de Jonquières

PRICE PRIX PREIS WATCH

OF ALL THE companies which have agitated for faster European economic integration, none has done so for longer or more loudly than Philips, the large Dutch electronics manufacturer. Indeed, Philips claims to have invented the idea of the single European market, and top executives have repeatedly called for its speedy realisation.

Yet, when it comes to applying the single market's central principles – total liberalisation of trade and unrestricted price competition across EC borders – Philips' business practices appear to diverge from its lofty rhetoric.

The company freely admits the trade prices it charges for the same products vary, though it will not say by how much. It also says it supplies products to dealers only for sale in their own countries and refuses to supply them for re-export to other EC countries – so-called parallel importing.

"If an authorised Philips dealer in Italy asked us to sell him products in the Netherlands, we would tell him, very politely, that we have a distributor in Italy and he should buy his products there," said Mr Jack Reemers, a spokesman at Philips' Eindhoven headquarters. Mr Reemers said Philips had no intention of changing its approach once the single market took effect at the end of this year by unifying its prices across the EC. "What have unified prices got to do with the single market?," he said, adding that the company planned to continue existing policies "until the end of the world".

The European Commission strongly opposes parallel import restrictions which segment the EC market and can impose heavy penalties. Earlier this year, it fined Dunlop Slazenger International Ecu5m (£3.5m) for limiting exports of tennis balls from Britain to other parts of the EC.

Brussels is also investigating price disparities in the car industry. However, its legal armoury is limited by the competition powers given it in the Rome Treaty. Normally, it can act against restrictive distribution practices only when it has solid evidence proving illegal agreements or contracts, or the abuse of a dominant position.

> *"At the present time, price discrimination between national markets is widespread and substantial, to the considerable cost of consumers. Competition policy must, for the market to be fully integrated, make it clearly understood, for example, that parallel imports are to be welcomed wherever undue price differences are seen to exist."*
>
> The Economics of 1992: the Cecchini report on the single European market, European Commission, March 1988.

Some companies have already moved unprompted to harmonise European prices. Compaq, a US personal computer maker, says it seeks to limit variations for most of its products to no more than 5 per cent around a central price.

Lego, the Danish toymaker, Mars, the US confectionery and petfood manufacturer, and Rank Xerox, the office equipment supplier, have taken similar measures.

But in consumer electronics, wide price differentials are far from unique to Philips, according to electrical retailers. They say the prices of leading brands such as Grundig of Germany and Panasonic and Sony of Japan also vary substantially.

Expert International and Euronics, two pan-European associations of small electrical retailers, say the prices of many of these companies' products are 25-35 per cent higher in Italy and Spain than in Germany and the Netherlands.

As the table indicates, the differences can in some cases be 50 per cent or more. The brand names and model numbers of the products were supplied to the Financial Times but have not been published, at Expert's request.

Expert has conducted quarterly trade price surveys since 1989, based on actual prices paid by its 2,500 affiliated dealers in 14 countries. The surveys do not cover Britain, because Expert has no members there, though UK prices are generally considered among the lowest in Europe.

Mr Wim van den Toorn, Expert's managing director, said exceptionally high trade prices depressed dealers' margins. Though he had repeatedly asked manufacturers to harmonise prices and to allow Expert to buy centrally on behalf of all its dealers, he had made no progress. Panasonic said it knew of no such request.

A Panasonic spokesman and Mr Knud Thomsen, European sales manager of Grundig, which is 32 per cent owned by Philips, said Expert's calculations exaggerated the price differentials. However, Mr Thomsen would give no figures of his own, saying he did not know by how much Grundig's prices varied across Europe.

Philips says it sets prices to meet varying local competitive conditions, while Grundig and Panasonic say their prices reflect national differences in taxes, distribution and other costs. But Mr Thomsen would not say how much such costs amounted to, arguing that this was confidential information.

Mr van den Toorn is unconvinced by these arguments. Though he concedes special taxes distort prices, he claims variations in the costs of distribution, transport and manufacturers' contributions to after-sales service give rise to differences of less than 5 per cent in prices across Europe.

"We know what the costs are. We ship goods to our dealers using the same transport companies, trucks and roads as our suppliers," he said.

He and other retailers complain price differentials are maintained by obstacles to cross-border product flows. "Suppliers never say explicitly in their dealership agreements that you can't make parallel imports," he said. "But if you know the business, you can read between the lines. And what the suppliers are saying is 'we can make life very difficult for you.'

"If we bought Philips or Sony products in the Netherlands and sold them in Spain, the suppliers would boycott our dealers. Or maybe they would be told that certain spare parts they needed would be out of stock."

Mr van den Toorn's fears are shared by Mr Marcel Vloemans, head of Euronics which, unlike Expert, has tried to make parallel imports. It is currently trying to buy 10,000 Philishave razors in the Netherlands for dealers in Italy, where Mr Vloemans says the price is 20 per cent higher.

However, Mr Vloemans says such attempts have repeatedly run into outright refusal or resistance. "If I buy products for parallel imports, suppliers won't do repairs, send spare parts or provide service manuals. They can also threaten to remove dealer discounts," he said.

Mr Vloemans said Euronics had tried to telephone senior executives of manufacturers to discuss his problems, but has been told they were out and his calls have not been returned. Mr Reemers said he knew of no such calls.

Mr van den Toorn complains that lack of EC-wide product guarantees and manufacturers' insistence that dealers supply the serial numbers of products and their purchasers' names and addresses also make it easy to control parallel imports.

Some manufacturers which distribute exclusively or selectively through designated dealers register the agreements with the European Commission, which prohibits them from restricting parallel imports.

However, such arrangements are rare in the consumer electronics industry. Brussels says only Grundig and Saba, owned by the French Thomson group, currently have EC-approved agreements in force. Mr van den Toorn says they are not strict enough.

Grundig's 15-year-old agreement is due to expire shortly. Mr van den Toorn plans to write to the Commission, providing information about price differentials and asking that Grundig's new agreement explicitly require the company to allow parallel imports.

The attitude of the Commission – and manufacturers – is not yet clear. But unless changes happen, some consumers in the EC will continue to pay more than others for the same products – and the grand idea of a single market will stay on the drawing board.

Comparative prices within the EC

Differences in dealer prices charged by consumer electronics manufacturers for products sold in the EC, March 1992

PRODUCT		LOWEST PRICE in local currency	LOWEST PRICE in D-Marks*	HIGHEST PRICE in local currency	HIGHEST PRICE in D-Marks*	DIFFERENCE (HIGHEST PRICE AS % OF LOWEST)
Portable TVs	Model A	Germany DM 434	DM 434	Spain Ptas 37,781	DM 596	137%
	Model B	Netherlands DFl 449	DM 408	Italy L 420,000	DM 560	137%
Tabletop TVs	Model A	Germany DM 922	DM 922	Italy L 1.5m	DM 2,000	217%
	Model B	Germany DM 1,270	DM 1,270	Spain Ptas 111,858	DM 1,764	139%
VCRs	Model A	Netherlands DFl 753	DM 675	Italy L 664,000	DM 885	131%
	Model B	Germany DM 1,383	DM1,383	Spain Ptas 118,720	DM 1,873	135%
Camcorders	Model A	Germany DM 1,126	DM1,126	Italy L 1.22m	DM 1,632	145%
	Model B	Germany DM 995	DM 995	Italy L 992,000	DM 1,323	133%

*Conversion to D-Marks at prevailing exchange rates. Source: Expert International

Poles back reforms

THE Polish parliament approved constitutional amendments at the weekend giving greater powers to the president and prime minister, agencies report from Warsaw.

The Sejm (lower house) adopted the so-called small constitution by 241 votes to 55, with 55 abstentions. The vote was just seven votes above the two-thirds majority needed to pass the amendments, which redefine relations between the government, president and parliament.

The package aims to prevent conflicts between the president and the government such as those which accompanied the short-lived goverment of Mr Jan Olszewski, formed in December 1991 and dismissed by the Sejm in June.

However, while the amendments allow the president to appoint a cabinet, they prevent him from dismissing it.

The Financial Times (Europe) Ltd
Published by The Financial Times (Europe) GmbH, Frankfurt Branch, Nibelungenplatz 3, 6000 Frankfurt-am-Main 1: Telephone 49 69 156850; Fax 49 69 5964481: Telex 416193. Represented by E. Hugo, Managing Director. Printer: DVM GmbH-Hürriyet International, 6078 Neu-Isenburg 4. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1992.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: J. Rolley, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Vimmelskaftet 42A, DK-1161 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

Cheney says task force sent to Kuwait under a deliberate programme

US denies provocation of Iraq

By Jurek Martin in Washington

THE US decision to dispatch 2,400 troops to Kuwait this week is designed to send a message to Iraq's President Saddam Hussein, but not to provoke him, according to US officials.

Mr Dick Cheney, secretary of defence, said at the weekend that the presence of the reinforced armoured battalion and its participation in joint military exercises was part of a deliberate programme.

This, he said, "allows us to demonstrate to would-be adversaries that the US is ready to go on short notice and to reassure our friends – such as the Saudis, such as the Kuwaitis and the other Gulf states – that we are prepared to come to their assistance it it is needed".

But he added it was as wrong to suggest the US was seeking to provoke Mr Saddam as it was to accept that there was any basis in the Iraqi president's claim to sovereignty to all or part of Kuwait.

There is concern in the US government that Iraq has begun to reassert such claims, much as it did prior to its invasion of Kuwait two years ago yesterday.

The inclination is to see this as a pattern of bluster by Mr Saddam, also known as "cheat and retreat", of which denial of access to United Nations inspectors was a part. But failure to take such signals seriously two years ago is a mistake that the administration knows it cannot afford to repeat.

The battalion-sized task force, drawn from the 1st Cavalry division in Fort Hood, Texas, and the 5th Special Forces group based in Fort Campbell, Kentucky, combines tanks and mechanised infantry. Both units fought in the Gulf war and will take part in exercises code-named Operation Intrinsic Action, scheduled to start in September but now brought forward.

This operation – plus two others due to start today involving naval, marine and amphibious forces – stem from last September's defence co-operation agreement between the US and Kuwait. The decision to advance them was taken, according to the Pentagon, "when the difficulties started with inspections in Baghdad".

The new US military presence in the region is not of a size to suggest a combat mission against Iraq is imminent, although the contingency plans for air strikes against Iraq, involving US, British and French aircraft, were in an advanced state of preparation during the recent confrontation with UN inspectors in Baghdad.

Reuter reports from Baghdad: An unidentified gunman shot at a UN guard in front of a Baghdad hotel yesterday in the latest of a series of problems faced by UN staff in Iraq.

A UN official said the shooting was the latest of a series of security "difficulties" for the guards.

No one has been hurt since security problems in Baghdad increased dramatically in July. But vehicles have been daubed with paint and staff have been insulted, spat on and intimidated.

Meanwhile, Iraq repeated its claims to Kuwait yesterday. The daily Babil newspaper published a front page colour photograph of Mr Saddam praying on the Kuwait City seafront in October 1990 with the headline: "It will happen again, God willing."

Defence Secretary Dick Cheney responds to reporters' questions at the weekend

Jakarta sinks plan to combat piracy

By Kieran Cooke in Kuala Lumpur

PLANS for an international centre to fight the increasing incidence of piracy in south-east Asian waters have been scuttled.

The International Maritime Bureau (IMB) had proposed setting up a 24-hour regional centre in Kuala Lumpur to co-ordinate anti-piracy efforts in waters off Malaysia, Singapore, Indonesia and the Philippines. But Indonesia, in particular, has objected to what it sees as interference in its affairs.

At a Piracy in South-East Asia conference in Kuala Lumpur, Commodore Sutedjo, director of naval operations and training in the Indonesian navy, said that as long as piracy occurred within territorial waters, local law enforcement authorities could carry out counter measures more effectively.

There is alarm at the growing frequency and ferocity of the pirate attacks. More than 40 incidents have been reported this year in the Strait of Malacca and in the narrow Phillips channel, off Singapore.

Shipowners say most attacks in the area seem to be carried out by Indonesians who disappear in the labyrinth of Indonesian islands between Singapore and Sumatra.

In one incident pirates boarded a supertanker carrying 240,000 tons of crude oil in the Phillips channel. The crew was tied up and the tanker was left cruising, unpiloted.

Shipowners have rejected proposals for a toll to keep the region's seas safe. They say security is the responsibility of the states themselves. It was reported last week that Indonesia and Singapore had agreed new measures to combat piracy, including granting each country's marine police and navy the right of hot pursuit.

Indonesian bank managers warned of loan crackdown

By William Keeling in Jakarta

MANAGERS of Indonesia's seven state-owned banks would be sacked if found granting loans as personal favours, Mr J.B. Sumarlin, Indonesia's minister of finance, warned at the weekend.

The state banks dominate the banking sector, accounting for about half the sector's Rupiah 118,000bn (£29.8bn) of outstanding credits. The government is undertaking a programme to restructure the banks, reduce bad debts and improve management.

In April the government changed the status of the banks from state enterprises to limited liability companies, a move designed to give the banks greater autonomy. On Saturday Mr Sumarlin completed a reshuffle of the banks' boards, swearing in 72 new directors and commissioners.

Mr Sumarlin stressed: "Should any government bank be known to have channelled its funds on the force of a mere personal memo 'from up above', it would be the bank leaders who would be hanged, not the author of the memo," the state-owned Antara news agency reported.

Bankers say Mr Sumarlin's statement is a tacit acceptance that the problems faced by state banks are partly the result of lending under pressure from businessmen, often politically well connected, for schemes which are not commercially viable.

His statement, however, appeared to stop short of directly criticising those exerting pressure for unwarranted credit facilities. Years of poor credit control have left the state commercial banks with bad and doubtful debts of between 15 and 25 per cent of their portfolios, donor officials estimate.

The government's restructuring programme will include raising the state banks' capital adequacy ratio to 8 per cent of performing assets, in line with Bank for International Settlements guidelines, by the end of next year. Bankers say this will require an injection of up to $2bn (£1bn) of new capital.

The World Bank is expected to provide over $300m to assist the banks' recapitalisation and to improve the supervisory capacity of Bank Indonesia, the central bank. Government officials say once the restructuring is complete, they intend to float a minority shareholding in each of the state banks.

Further setback for Collor as aide quits

By Christina Lamb in Rio de Janeiro

THE spokesman of beleaguered Brazilian President Fernando Collor has quit, the latest blow to a man who is facing serious corruption allegations.

Although the reason for leaving was described as "purely professional" – a dispute over the spending of government publicity money – the resignation of Mr Pedro Luis Rodrigues is a further embarrassment to Mr Collor during the current crisis.

In an interview with O Globo newspaper yesterday, Mr Ibsen Pinheiro, the president of the Brazilian Congress, said he now considered the opening of an impeachment process against Mr Collor "inevitable".

Mr Collor has been under fire for two months over his well-documented financial ties to an allegedly corrupt businessman. In the event of impeachment the president would be charged with the "crime of responsibility" and would need the support of one third of Congress in order to survive.

The government is now concentrating its efforts on mustering the 168 congressional votes necessary to keep Mr Collor in place, through judicious use of state money.

Despite the parlous state of the Brazilian budget, over the weekend the economy minister announced extra finances for projects of the ministries of transport and social action. After a battle between the ministers, the political need to spend seems to be winning out over the economic need to cut caused by a 10.4 per cent real drop in tax revenue in the first half of this year and continued failure to meet the targets of its programme with the IMF.

Clifford wins early BCCI trial

MR Clark Clifford, the former US defence secretary indicted last week on criminal charges relating to the Bank of Credit and Commerce International (BCCI) scandal, has won his request for the trial to be held unusually soon, Alan Friedman writes from New York.

A Washington judge has set October 26 as the date of the trial of Mr Clifford and Mr Robert Altman, his protégé and law partner.

The two men were indicted in Washington and New York last week. The Washington charges allege that they misled federal banking regulators about their knowledge of BCCI's secret ownership of First American Bankshares, a Washington bank they ran during the 1980s. Messrs Clifford and Altman have entered pleas of not guilty in response to these charges.

The setting of an early Washington trial date is something of a tactical victory for the two accused. Lawyers for both men argued for a quick trial date, claiming that Mr Clifford, 85, might not live long and wished to clear his name by winning a verdict in his favour.

But legal experts speculate there may be another advantage in being tried on the Washington charges before having to face the indictments brought in New York. The Washington charges are far less serious than those in New York: these include conspiracy, the taking of bribes, falsifying business records and scheming to commit fraud.

Under New York state law it is considered possible that "double jeopardy" provisions might mean a favourable verdict in Washington could preclude a New York trial.

Another complication arising out of Mr Clifford's winning of an October trial in Washington is that it might result in a delay of the separate and unrelated trial of Mr Caspar Weinberger, the former Reagan administration defence secretary indicted recently in the Iran/Contra scandal. This could be because Mr Clifford and Mr Weinberger both have the same lawyer, who might find it difficult to prepare simultaneously for the equally complex Iran/Contra and BCCI trials.

Ministers meet for final Nafta drive

TRADE ministers of the US, Canada and Mexico were meeting in Washington yesterday for a final push to complete a North American Free-Trade Agreement, writes Nancy Dunne in Washington.

"We simply must capture the momentum", said Mrs Carla Hills, US trade representative, appearing on television yesterday on a programme taped on Friday. "You can't drag your feet and say we can't do it this week."

The ministers had been "on standby" since the previous weekend when they met in Mexico City and failed to achieve a final breakthrough on the most difficult issues. They flew into Washington on Saturday night and began a series of unannounced meetings yesterday.

That they came at all indicates their top negotiators, who have been holding meetings in Washington since Wednesday, were close enough to agreement to allow the ministers to make the final, most difficult, compromises in areas such as energy, agriculture, cars and rules of origin.

Mrs Hills, on television to make the case for the controversial pact to an American public worried about the loss of manufacturing jobs to Mexico, said US exports to Mexico would hit $44bn (£23bn) this year, up from $12bn in 1987.

The US and Mexico had "a wonderful fit," and exports would continue to grow in computers, capital goods and food products, creating thousands of new high-paying jobs in the US.

She said letters had been sent to 160 US business leaders asking for suggestions about a worker adjustment programme. This will be included in the Nafta-implementing legislation, which must be approved by Congress before the pact becomes reality.

Mrs Hills has said it could take at least three to four weeks to prepare the pact before submitting it to Congress. It must be accompanied by 40 private-sector adviser reports.

The negotiators were hoping for congressional passage this year but they have run out of time. The pact must first be submitted for a 90-day notification period. When the new Congress meets next year it will have 90 legislative days to debate the pact.

Arab MPs in Israeli government

By Hugh Carnegy in Jerusalem

TWO ARAB members of the Israeli parliament were yesterday appointed deputy ministers in prime minister Yitzhak Rabin's Labour-led coalition, the first time in two decades that an Arab has been included in the government.

The cabinet also decided to accept an invitation from the US and Russia, co-sponsors of the Middle East peace negotiations, to resume bilateral talks with Syria, Lebanon, Jordan and the Palestinians in Washington on August 24.

The talks are scheduled to last a month in an attempt to achieve a breakthrough. They will be the first talks since Mr Rabin took power last month promising to accelerate the peace process which made little progress under his predecessor, Mr Yitzhak Shamir.

Further underlining the contrast with Mr Shamir's hardline government, the cabinet voted to appoint Mr Nawaf Masalha, a Labour MP, deputy minister for health. Mr Walid Sadek, of Labour's left-liberal coalition partner Meretz, is to be deputy interior minister.

Mr Rabin was keen to reward the surge of support both Labour and Meretz received from Israel's Arab minority which helped him win the June general election.

Although Arab citizens have long had the vote, only once previously, in 1973, has an Arab MP held a ministerial post.

● A Palestinian said by the army to be a leading underground activist in the occupied Gaza Strip was shot dead by undercover agents yesterday.

Interception of Haitians to continue

By Jurek Martin

THE US government may continue to intercept Haitian boat people on the high seas and return them home – at least for the next few weeks.

On Saturday, after several days of conflicting legal judgments, the Supreme Court refused to reinstate the ban on interceptions ordered by a lower court judge last week.

The highest court, however, did not pass judgment on the legality of the US policy, enunciated by President George Bush on May 24. It gave the government until August 24 to request a formal hearing on this critical issue.

Since there have been two conflicting judgments on the legality of the US policy at the appeals court level, the Supreme Court will find it hard to duck a judgment. One hint of its likely division on this issue was evident on Saturday when the two most liberal justices, Harry Blackmun and John Paul Stevens, opposed extension of the ban.

This court has generally shown itself unwilling to throw out government policy, even when it is patently uncomfortable with that policy. This was most evident two months ago when it refused to invalidate on legal grounds the extradition of a narcotics suspect from Mexico.

In arguments to the Supreme Court, the justice department had said that to change policy now would precipitate a humanitarian disaster in the Caribbean by encouraging countless Haitians to leave the island in unseaworthy vessels.

Not directly addressed was the issue most troubling the appeals court in New York last week, that forcible return of would-be refugees without first ascertaining the legitimacy of their claim to asylum was in contravention of both US law and international practice.

Turkey faces formidable economic tasks

By John Murray Brown in Istanbul

TURKEY'S economic policies are broadly on the right path but the country faces a formidable task in maintaining growth and cutting inflation, the Paris-based Organisation for Economic Co-operation and Development warns in a report published today.

In its first report since Mr Suleyman Demirel's coalition government was formed last November, the OECD calls for radical reform of state-owned industries, wage restraint in the public sector and closer co-operation between government and central bank on financing the budget deficit.

The OECD says the "broad lines of the new government's economic programme go in the right direction" but warns Turkey faces a tough task to maintain growth, to meet the increase in the labour force and at the same time tackle the perennial problem of "persistently high inflation".

Turkey's gross national product is projected to grow by 5 per cent in 1992, falling to 3.75 per cent in 1993. The recovery will be driven by household consumption, bolstered by the generous pay increases of 1991. The current account is forecast to remain in surplus at around ½ per cent of GNP over the next two years. With a tight budget and monetary restraint, inflation should fall in 1993 from around 70 per cent, the report says.

Much will depend on being able to cut public borrowing, the report says. This jumped to a record 12.5 per cent of GNP in 1991. This year, it is forecast at 8.8 per cent of GNP.

The OECD warns that failure to curb public borrowing could result in higher inflation, and a faster depreciation of the Turkish lira, boosting the interest payments on Turkey's foreign debt. This in turn will fuel domestic interest rates, causing a shortfall in projected budget appropriations for domestic debt.

The OECD calls for spending discipline and a more reliable revenue generation mechanism, suggesting that many of the deficit reducing measures, such as the tax amnesty, are of an irregular nature, and will be difficult to repeat in 1993.

The OECD urges the government, when financing the deficit, to limit its use of short-term advances from the central bank, which increase the money supply and fuel inflation. Under the budget law a ceiling was set for short-term advances from the central bank. However the government has already exceeded that figure.

In addition to monetary restraint, the report says unit labour costs will need to trail prices if Turkish exporters are to regain their competitive edge, and new employment opportunities created. Given the weight of wages in government expenditures, the report says the "public sector has an important responsibility" in restraining wage growth.

However, the report concludes that only through comprehensive reform will the state sector industries "cease to be a drain on public finance and a threat to macro-economic stability".

Suleyman Demirel: urged to reform state industries

NEWS IN BRIEF

Opposition threat to Mexico's PRI

MEXICO yesterday put its democratic reforms to the test in elections in six states, AP reports from Durango. As the polls opened in the morning the conservative opposition National Action party (PAN), fresh from victory last month in the border state of Chihuahua, held high hopes of adding another governorship in Durango, just to the south.

Elections for governor were also being held in four other states, while Baja California voters were choosing mayors and state legislators. A series of opposition victories could cause tension within the ruling Institutional Revolutionary party (PRI). The Chihuahua victory was only the second gubernatorial victory by an opposition party in any of Mexico's 31 states since the PRI was formed in 1929.

Some polls showed the two parties neck and neck in Durango. The PAN candidate, former Durango city Mayor Rodolfo Elizondo, is also backed by the leftist Democratic Revolution party. He was opposed by Mr Maximiliano Silerio Esparza, former head of the national peasants' union and of the federal land reform agency.

Airbus wreckage found

Nepali troops yesterday found the wreckage of the Thai Airways Airbus which smashed into a mountain north-west of Kathmandu on Friday with 113 people aboard. They said it had exploded in flames, apparently killing everyone, Reuter reports from Bangkok.

A Thai Airways information officer in Bangkok said a transcript of the final conversations between the crew of Flight TG311 and the Kathmandu control tower had been given to the airline by Nepal's civil aviation department. "The pilot twice said there were technical problems and asked for permission to go to Calcutta," Mr Weera Kitchathorn, the airline's president, was reported as saying.

The aircraft was on a scheduled flight from Bangkok to Kathmandu and disappeared in bad weather shortly before it was due to land.

Kabul bombardment kills 14

Fourteen people were killed and 97 wounded in Kabul yesterday when dissident guerrillas rained rockets and mortar bombs on the Afghan capital, government officials said, Reuter reports from Kabul.

Defence Minister Ahmad Shah Masood said the attack was carried out by the two factions of the hardline Hezb-i-Islami party. The official Kabul Radio said a ceasefire was arranged in the afternoon, after one of the most devastating bombardments of the city since mujahideen guerrillas took power in April.

Karabakh talks break down

International talks to end the fighting in the Armenian enclave of Nagorno-Karabakh looked doomed yesterday after a walk-out by Azerbaijan – despite efforts by Italian mediators to save the negotiations, Reuter reports from Rome.

Azeri delegates, joined by Turkish colleagues, walked out of the 11-nation talks as the representative of the disputed territory's Armenian leadership started to address the meeting. The Azeris claimed that, in addressing the meeting, Armenians from the enclave were being given the same status as the 11 independent nations taking part in the talks.

Vote-buying alleged in Nigeria

Violence and vote-buying marred the first of Nigeria's presidential primaries for candidates for December's elections, according to state radio yesterday, Reuter reports from Lagos.

Violence erupted in Borno state in the north, where agents for some of the 20 candidates vying to become the first civilian president in a decade openly distributed cash, the radio said. In Katsina state, also in the mainly Moslem north, the independent Sunday Champion newspaper said: "Agents of some candidates watched helplessly as the electoral process was being raped."

Congo ballot for leader

Thousands of people lined up to vote for a new leader in the former Marxist-Leninist state of Congo yesterday in the first contested presidential ballot since 1963, AP reports from Brazzaville.

Among leading contenders is discredited President Denis Sassou-Nguesso, the former Marxist military ruler who was stripped of all but ceremonial powers last year by a national conference for democracy. He retains the support of the army and has been locked in a power struggle with Prime Minister Andre Milongo, another contender who has led an interim government to organise elections.

Satellite meets hitch

A European science satellite encountered guidance problems yesterday hours after its deployment from the space shuttle, the US space agency Nasa said, Reuter reports from Florida.

Astronauts aboard the Atlantis shuttle said the $426m (£223m) satellite appeared to pitch over shortly after its gas jets ignited to boost it to its working altitude of 325 miles. The shuttle chased the European Retrievable Satellite, known as Eureca, in an effort to help ground controllers maintain contact with it but no rendezvous was planned.

The shuttle is scheduled to return to Earth on Friday.

NEWS: UK

Revaluation gains currency with UK executives

Our Industrial Staff find leading companies demanding lower interest rates to stimulate the economy.

THE UK government is under growing pressure from senior directors of recession-hit British companies to use its presidency of the European Community to press for a realignment of currencies in the exchange rate mechanism.

Executives speaking to the Financial Times before the weekend stressed the need for European countries to cut interest rates to boost faltering economies and forestall further company failures.

This would be best achieved, according to many directors, either by a revaluation of the D-Mark or by a devaluation of a range of European currencies against the D-Mark.

They recognised neither move could rely on the support of the Bonn government, which has raised interest rates to help pay for German reunification and to curb inflation.

Mr Ken Schofield, chief executive of the chemicals group MTM said: "We are paying real interest rates of about 10 per cent and we will never get out of recession at that sort of rate. We really need real rates of about 6 per cent.

"There are two things that need doing. First there should be a realignment of all the currencies in the ERM apart from the D-Mark. That might allow interest rates to come down to 7 or 8 per cent.

"Second we need to move forward as quickly as possible to a single European currency. Otherwise, as the German economy recovers, the D-Mark will have an ever-increasing distorting effect on the European economy."

He said recent returns from his own group and from motor manufacturers Chrysler and Ford suggested lower interest rates was helping growth in the US.

Mr Ian McAllister, chairman of Ford of Britain said: "The government has closed off so many avenues if they want to stimulate the economy.

"They are not going to increase public expenditure, they are talking of reducing it. They don't want to devalue nor leave the ERM. I believe we should stay in the ERM. We went in at too high a level, but devaluation raises too many questions about whether they have gone far enough.

"There may be an argument for a revaluation of the D-Mark. The Bundesbank is damping German inflation with high interest rates and is dictating to the rest of Europe. In the UK we need to lower interest rates.

"There is a lack of consumer confidence, people are uncertain about the future. The housing market needs lower interest rates and sectoral help is needed for the construction industry."

Mr Stanley Kalms, chairman of Dixons consumer electronics retailer, ruled out any suggestion that there should be unilateral devaluation but said Britain should use its presidency of the EC to initiate discussions on the subject of realignment.

Mr Fred Hadfield, chairman of Ingersoll-Rand UK, the industrial and construction equipment group, said a drop in interest rates would be the best stimulus for the UK economy but this might require a withdrawal from the ERM which could undermine the concept of a united Europe.

Unilateral devaluation of sterling would not work either, because the benefits of previous devaluations had proven only transient. As for a realignment of the ERM, Mr Hadfield said most of the parities were reasonable except that of the D-Mark.

In the machine tool industry, Mr Stan Vaughan, managing director of Hahn & Kolb Great Britain, agreed that withdrawal from the ERM would be a retrograde move. "The D-Mark should be revalued – that's the one that's out of step," he said.

Mr Vaughan advocated a reduction of around 2 per cent in UK interest rates to stimulate the economy. While conceding that this was difficult for the government with its ERM commitments, he said Britain could not "sit around waiting for something to happen."

Dr Colin Gaskell, managing director of 600 Group, the machine tool and mechanical handling equipment producer, proposed a different solution. "The mistake we have always made in this country is to defend the pound at too high a level, whereas the Japanese and the Germans do the opposite.

"We should be setting up our fiscal and economic policies to maximise our industrial potential, and let the markets decide the level of the pound."

Meanwhile, Mr Andrew Harrison finance director of Courtaulds Textiles said: "A realignment to a new parity will not lead to an interest rate cut because the government will have to defend the new level.

It might help exports but demand overseas is slow. Realignment might import inflation too.

"The only way to get interest rates down is to float sterling like the dollar, which would import a lot of inflation."

He concluded: "The government should try to persuade the Germans to increase taxes rather than interest rates, and I don't see that happening."

Reporting by: Andrew Taylor, Paul Abrahams, Andrew Baxter, Daniel Green and Kevin Done

Forecasters urge boost for public spending

By Peter Norman, Economics Correspondent

THE government is urged today to consider fiscal stimulus for the economy, including help for the housing market, amid forecasts that output may contract by about 1 per cent this year.

In separate reports, Oxford Economic Forecasting, an independent economic research company, and Midland Montagu, the City investment bank, forecast respectively that British gross domestic product will fall by 1.1 and 1 per cent this year.

In its latest Economic and Financial Outlook, National Westminster Bank predicted a 0.3 per cent drop in UK GDP this year, compared with the government's March Budget forecast of 1 per cent growth.

Both OEF and NatWest advocate temporary fiscal expansion to cope with the recession in spite of forecasting that the public-sector borrowing requirement will exceed the government's £28bn target in 1992-93.

Mr David Kern, NatWest's chief economist, said the government should "seriously consider higher public spending on infrastructure and specific help for the housing market" as a way to regain the political initiative and to counter the criticisms of UK membership of the European exchange rate mechanism.

The Oxford forecasting team suggests that the government should re-examine the nature and composition of its fiscal policy instead of simply defining it in terms of the PSBR and the medium-term aim of balancing the budget. The outlook for public infrastructure investment – which it described as a proven pump primer for the construction sector – appeared especially bleak at present, it commented.

The Oxford forecasters warn that a realignment involving a devaluation of the pound in the ERM will not cure the UK economy's ills. It will not lead to lower interest rates and will fail to give a sufficient boost to exports.

Leaving the ERM altogether would be one way of achieving the interest-rate drop of 2-4 percentage points needed to make an impact on economic recovery. That option, though, will entail considerable economic and political risk.

In his report, Mr Roger Bootle, Midland Montagu's chief economist, warns of a "crisis brewing" in the economy. He says there may be a radical shift of government policy aimed at achieving lower interest rates after the end of the UK's six-month EC presidency if the government is unable to deliver sharply lower rates within the ERM constraints.

Mr Bootle said markets should expect the government to attempt a "radical breakout" in policy next year if UK inflation is low, there is no UK recovery in sight and no meaningful cut in German interest rates is in prospect.

In that case, bank base rates might be at 8 per cent or lower in the second half of next year.

Telephone companies may offer personal numbering

By Michiyo Nakamoto

THE DAYS of not daring to leave the office for fear of missing a vital telephone call are nearing an end. British telephone users may soon be able to have their calls follow them wherever they go.

Several companies, including Mercury Communications and BT, may launch services as early as next year which would give subscribers life-long "personal" numbers, on which they could be called at any telephone in the country.

Mercury plans shortly to test-market the service, for which it would charge a small initial fee and a subscription. Users would not necessarily have to subscribe to Mercury's telephone network.

A user of a personal numbering service would tell a central computer where and when to direct calls by dialling a special code into any available telephone.

Callers trying to reach someone with a personal number would be told automatically whether they had to make a long-distance call to do so.

Mr Stanley White of IISS, a US group which plans to offer a personal numbering service in Britain, says it will be "the darling of the 1990s, as cellular telephony was in the 1980s."

US telephone companies recently began offering personal numbering services on a limited basis. Though the idea for the services is about 10 years old, the technology needed to make them work has been developed only since then.

Bleak outlook for advertising

By Gary Mead, Marketing Correspondent

THE UK advertising industry faces a bleak decade, according to a study published by Coopers and Lybrand.

Economic recovery will be modest, it says, which, with an increasing shift of competitive power from advertising agencies to their clients will be the main obstacle to a repetition of the boom years of the 1980s.

Advertising revenue grew in nominal terms from some £2.5bn in 1980 to more than £7.5bn in 1990, with the top 10 agencies' revenues estimated to have grown annually by more than 13 per cent in nominal terms over the decade. In real terms, the sector grew by some 3 per cent annually.

Nevertheless, the sector took a battering last year, with some estimates suggesting that there was a real decline of 11 per cent.

The report endorses the view that, given no real growth in the underlying economy this year, agencies face the prospect of growth restricted to 2.8 per cent in real terms in 1992 and 4 per cent next year.

The report criticises the "extravagant image" that advertising developed in the last decade and gives a warning that "the 1990s will see clients turn away from agencies maintaining such an image as they place increasing emphasis on qualities such as professionalism, communication and cost-effectiveness."

The study highlights several factors that it says might help to ensure that those agencies which have survived the last two years will profit from enduring slow economic growth.

The advertising industry: an examination. Coopers and Lybrand, 128 Queen Victoria Street, London EC4P 4JX. Free.

Inland Revenue issues £237m tax demand against Nissan UK

By Kevin Done, Motor Industry Correspondent

THE Inland Revenue has issued estimated assessments for unpaid tax totalling £237.6m against Nissan UK, the former British distributor of Nissan vehicles controlled by Mr Octav Botnar.

The accounts of Nissan UK Holdings and its subsidiary NUK have been heavily qualified by Kidsons Impey, the company's auditors because of the potential impact of the Inland Revenue investigation.

A warrant was issued in January for the arrest of Mr Botnar, the 78-year-old NUK chairman. He was abroad at the time and has not since returned to the UK. He is believed to be living in Switzerland.

According to the company's latest annual report NUK has lodged a formal appeal against the Inland Revenue assessments and is pursuing the appeal "vigorously."

The tax assessment, which was issued in October last year according to the annual report, is based on Inland Revenue claims that NUK consistently understated its profits in the period from October 1971 to July 1989.

Earlier this year Mr Michael Hunt, deputy chairman and assistant managing director of NUK, and Mr Frank Shannon, a former NUK finance director, were committed for trial on charges of corporation tax fraud relating to the alleged profit manipulation.

Kidsons Impey claims it has not received "all the information and explanations which we have requested" in connection with the Inland Revenue's assessments and criminal charges.

The auditors say they cannot form an opinion as to whether the NUKH financial statements "give a true and fair view of the state of affairs" of the group, nor whether the statements fully disclose directors' transactions and emoluments.

Adjustments may have to be made "to reduce the value of assets to their recoverable amount, to provide for any further liabilities which may arise and to reclassify certain fixed assets as current assets."

The annual report discloses that the company doubled its dividend payment in 1991 to £40m, of which £11.38m was transferred from reserves, as profit after extraordinary items totalled only £28.62m. Mr Hunt, who is the beneficial holder of a 10.63 per cent stake in NUKH, received a dividend payment of £4.25m.

The main shareholder and "ultimate parent undertaking" of NUKH with a 71.5 per cent stake is the Panama-incorporated European Motor Vehicles Corporation, which is controlled by the trustees of a settlement made by Mr Botnar in 1974.

Nissan UK results, Page 14

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES					JAPAN				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.0	99.4	77.1	100.8	95.3	101.4	103.3	125.7
1987	105.6	100.7	104.0	96.7	64.7	101.2	92.5	103.1	100.6	126.9
1988	109.9	103.2	107.0	96.1	59.9	102.2	92.3	107.8	96.2	137.4
1989	115.2	108.5	110.0	98.9	63.0	105.0	94.2	114.0	96.1	131.3
1990	121.5	113.8	114.0	100.9	56.6	108.2	95.7	120.1	98.2	116.1
1991	126.6	116.3	117.0	103.6		111.8	97.3	124.4	101.7	
3rd qtr.1991	3.9	1.9	3.2	2.6		3.3	1.7	3.3	4.0	
4th qtr.1991	3.0	−0.2	2.9	1.6		3.2	0.0	3.2	6.0	
1st qtr.1992	2.9	0.3	2.3	0.2		2.1	−0.6	2.5		
2nd qtr.1992	3.1	1.1				2.5				
July 1991	4.4	2.9	3.5	2.5	n.a.	3.4	2.0	1.9	3.0	n.a.
August	3.8	2.0	3.5	2.9	n.a.	3.5	1.9	6.5	5.0	n.a.
September	3.4	0.8	2.6	2.5	n.a.	3.0	1.1	2.9	4.0	n.a.
October	2.9	−0.1	2.6	3.0	n.a.	3.1	0.3	2.8	6.1	n.a.
November	3.0	−0.5	3.5	1.8	n.a.	3.6	−0.1	2.7	6.0	n.a.
December	3.1	−0.1	2.6	0.7	n.a.	3.0	−0.1	3.5	5.9	n.a.
January 1992	2.6	-0.4	1.7	0.7	n.a.	2.1	−0.6	4.6		n.a.
February	2.8	0.6	2.6	0.3	n.a.	2.2	−0.6	1.2		n.a.
March	3.2	0.9	2.6	−0.3	n.a.	2.1	−0.7	1.7		n.a.
April	3.2	0.9	3.4	−0.1	n.a.	2.8	−0.7			n.a.
May	3.0	1.1		−0.2	n.a.	2.3				n.a.
June	3.1	1.5			n.a.	2.5				n.a.

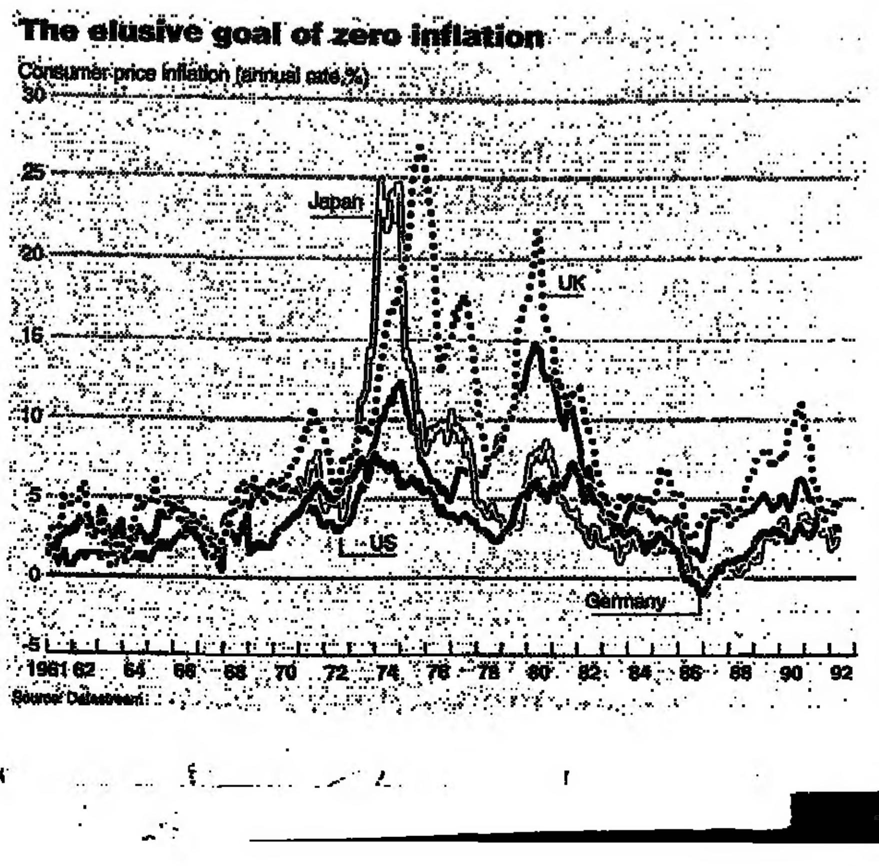
	GERMANY					FRANCE				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	104.0	104.0	111.3	102.5	97.2	104.5	101.5	101.9
1987	100.1	95.1	108.0	107.0	126.0	105.9	97.8	107.8	103.0	102.1
1988	101.4	96.2	113.0	107.0	126.2	108.8	102.6	111.1	104.0	98.3
1989	104.2	99.3	117.0	108.0	122.6	112.6	108.4	115.4	106.0	95.8
1990	107.0	101.0	124.0	110.0	126.8	116.4	107.1	120.6	110.3	100.6
1991	110.7	103.4	132.0	115.0		120.0	105.8	125.8		
3rd qtr.1991	4.1	2.8	n.a.	4.9		3.0	−1.5	n.a.	4.5	
4th qtr.1991	3.9	2.4	n.a.	6.9		2.9	-3.6	n.a.		
1st qtr.1992	4.3	2.0	n.a.			3.1		n.a.		
2nd qtr.1992	4.5	2.0	n.a.			3.1		n.a.		
July 1991	4.4	3.3	–	2.8	n.a.	3.4	n.a.	–	n.a.	n.a.
August	4.1	2.7	–	6.4	n.a.	3.0	n.a.	–	n.a.	n.a.
September	3.9	2.8	6.4	5.5	n.a.	2.6	n.a.	4.3	n.a.	n.a.
October	3.5	2.3	–	6.4	n.a.	2.5	n.a.	–	n.a.	n.a.
November	4.2	2.5	–	5.4	n.a.	3.0	n.a.	–	n.a.	n.a.
December	4.2	2.6	6.3	9.0	n.a.	3.1	n.a.	4.1	n.a.	n.a.
January 1992	4.0	1.6	–	4.5	n.a.	2.9	n.a.	–	n.a.	n.a.
February	4.3	2.0	–	3.6	n.a.	3.0	n.a.	–	n.a.	n.a.
March	4.8	2.5			n.a.	3.2	n.a.	3.8	n.a.	n.a.
April	4.6	1.9			n.a.	3.1	n.a.	–	n.a.	n.a.
May	4.6	2.0			n.a.	3.1	n.a.	–	n.a.	n.a.
June	4.3	2.0			n.a.	3.0	n.a.		n.a.	n.a.

	ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.6	101.4	103.4	104.3	107.7	104.5	92.9
1987	111.0	103.2	111.6	105.6	102.5	107.7	108.3	116.3	105.9	90.6
1988	116.5	106.8	118.4	109.8	101.9	113.0	113.2	126.2	108.9	96.8
1989	124.2	113.1	125.8	112.2	109.2	121.8	119.0	137.2	113.6	95.0
1990	131.8	117.8	134.7	120.2	117.2	133.3	126.0	150.1	123.3	98.3
1991	140.3	121.7	147.9			141.2	133.0	162.4	133.5	
3rd qtr.1991	6.4	3.1	10.7			4.8	5.5	7.8	6.9	
4th qtr.1991	6.1	2.1	10.6			4.2	5.0	7.8	5.1	
1st qtr.1992	5.6	1.4	9.2			4.1	4.5	8.6	4.4	
2nd qtr.1992						4.2	3.7			
July 1991	6.7	3.8	10.4	n.a.	n.a.	5.5	5.7	7.6	6.9	n.a.
August	6.3	2.9	10.9	n.a.	n.a.	4.7	5.5	8.3	7.8	n.a.
September	6.2	2.6	10.8	n.a.	n.a.	4.1	5.4	7.5	6.1	n.a.
October	6.1	2.2	10.8	n.a.	n.a.	3.7	5.0	8.3	6.6	n.a.
November	6.2	2.3	10.7	n.a.	n.a.	4.3	5.1	7.8	4.2	n.a.
December	6.0	1.9	10.4	n.a.	n.a.	4.5	4.8	7.2	4.7	n.a.
January 1992	6.1	1.3	9.4	n.a.	n.a.	4.1	4.5	7.5	6.1	n.a.
February	5.3	1.5	9.1	n.a.	n.a.	4.1	4.4	7.8	2.7	n.a.
March	5.5	1.4	9.1	n.a.	n.a.	4.0	4.5	10.3	5.5	n.a.
April	5.5		8.8	n.a.	n.a.	4.3	3.8	5.0	0.2	n.a.
May	5.7			n.a.	n.a.	4.3	3.6	7.0	2.9	n.a.
June	5.4			n.a.	n.a.	3.9	3.6			n.a.

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.

The elusive goal of zero inflation

Consumer price inflation (annual rate,%)



Source: Datastream

Pursuit of price stability may prove a fruitless task

FIXED EXCHANGE RATES may bring greater economic stability, although the present turbulence within the European exchange rate mechanism suggests the case is not clear-cut. They certainly produce headaches for politicians. As the calls for a devaluation mount, and in the face of a persistently stagnant economy, British government ministers have been driven to ever more emphatic defences of the present parity and commitments to economic austerity. Mr John Major's recently declared goal of reaching a zero inflation rate by the next general election is the latest and most extreme example.

The Euro-consensus around the desirability of "price stability" may already have passed its zenith. Yet even proponents of "price stability" stop short of advocating zero inflation as a serious goal for policy, being satisfied instead with a measured inflation rate of between 0 and 2 per cent a year. Even if the average price level is stable, improvements in the quality of goods and changes in relative prices mean that any given basket of consumer goods may well be rising.

Zero or negative inflation rates were once the norm. Money prices in both the US and the UK in the 1920s were roughly the same as a century before. More recent history suggests that Mr Major's target will prove elusive. Zero inflation has been a rare occurrence for the world's most powerful economies in recent decades. Germany has had zero or negative inflation rates for just 12 months in the past 30 years. Japan has managed just six months since 1970.

A positive inflation rate does not appear to have hampered Japan's growth record. There is, in fact, no link between low or stable inflation and rapid economic growth. Some countries fit the popular caricature: the UK has a toothless central bank and a post-1945 record of high and variable inflation and sluggish economic growth. But while countries with relatively independent central banks – including the US, Japan and Germany – do tend to have lower and more stable inflation rates, they are no more likely to have high or stable growth rates.

Even successful independent central bankers appear willing to tolerate a positive inflation rate. The Bundesbank, whose anti-inflation credentials are unquestioned, has delivered inflation rates in excess of 2 per cent for much of the past three decades. One reason is that, while inflation can be costly, particularly if it is unstable or if savers cannot index-link their capital, it may bring benefits, too.

The less compelling argument for a moderate and stable inflation rate is that it acts as a lubricant, allowing companies to change relative prices and wages without having to impose price and wage cuts. More important, a positive inflation rate allows central bankers, if they choose, to cut nominal interest rates to the inflation rate or below, making the real interest rate negative. Companies can, in principle, cut nominal wages, but nominal interest rates can never be negative, making inflation a precondition of negative real rates.

When might negative real interest rates be desirable? When an economy is so lumbered by accumulated debts that individuals are unwilling or unable to spend and companies will not invest. The US economy has found itself in such a debt trap, and the Federal Reserve has responded by cutting short-term interest rates so far that real interest rates are now barely positive. Many US economists argue that the Fed should go further and make short-term real rates negative.

The UK economy is also abnormally burdened by debts. So the cost of trying to achieve a zero inflation rate may be even higher than the half a million more job losses that OECD calculations imply it would normally take to reduce UK inflation to zero from its current level. UK short-term interest rates remain above 10 per cent, implying real interest rates of 6 per cent. With German interest rates unlikely to fall this year, the only route to lower real rates in the UK would be through higher inflation. Lower inflation may impede rather than speed recovery.

Edward Balls

THE WEEK AHEAD

ECONOMICS

Little joy in US indicators

THERE is unlikely to be much joy for President Bush in this week's string of US economic indicators. The decision to cancel his holiday and stay in Washington could look like a good idea as further mediocre news on the economy emerges.

July employment figures, out on Friday, are unlikely to show any significant improvement from their depressing condition in June, when non-farm payrolls fell a shock 117,000. Non-farm pay-rolls should have risen a modest 109,000, while the unemployment rate should show barely any change from June's 7.8 per cent.

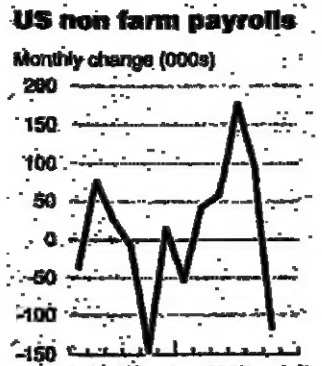
Economists are expecting this week's data to add to the general impression that the US economy continues to grow in the third quarter, but only sluggishly, at an annual rate of between 1.5 to 2 per cent.

Mr Alan Greenspan, chairman of the Federal Reserve, said recently that economic "momentum" was going to take off in the second half of the year, but worries about the resilience of the US economy are likely to continue especially as the election draws nearer, and political uncertainty starts to worry the markets.

Today's report from the National Association of Purchasing Managers is expected to point to only a slightly more upbeat assessment of the outlook among US manufacturers.

The following include some

US non farm payrolls



Source: Datastream

of the other economic events this week. The figures in brackets, from MMS International, are the median of economists' forecasts.

Today: US, July National Association of Purchasing Managers index (54 per cent), June construction spending (up 0.2 per cent); UK, July purchasing managers index; Japan, July foreign exchange reserves.

Tomorrow: US, July leading economic indicators (down 0.2 per cent); UK, July official reserves (-$100m).

Wednesday: US, Federal Reserve releases Tan Book for August 18 FOMC meeting, auto sales July 21-31 (6.6m); Canada, July help wanted index (64.0); West Germany, July unemployment (up 20,000), June employment (up 5,000), July vacancies (down 7,000); East Germany, July unemployment, July short-time work.

Thursday: Germany, Bundesbank council meeting; US, initial claims for week ended July 25 (420,000), June wholesale trade, money supply data for week ended July 27; Canada, May leading indicators (flat); Australia, July employment (up 10,000), July unemployment rate (10.9 per cent).

Friday: US, July non-farm payrolls (up 110,000), July manufacturing payrolls (up 12,000), July unemployment rate (7.7 per cent), July hourly earnings (up 0.3 per cent); July consumer credit ($1bn net repayment); Canada, July unemployment rate (11.5 per cent), July employment growth (up 0.1 per cent); France, June M3 (up 0.5 per cent).

During the week: Germany, June industrial production (down 0.1 per cent), June manufacturing output (down 0.2 per cent), June manufacturing orders (down 0.2 per cent), June trade balance (DM2bn surplus), June current account (DM3.5bn deficit), June retail sales (down 2 per cent on year); Denmark, June unemployment (11.2 per cent); Switzerland, July federal CPI (down 0.3 per cent on month, up 3.9 per cent on year); Netherlands, July CPI (up 0.5 per cent on month, up 3 per cent on year); Japan, June trade balance, June current account; Italy, July CPI (up 5.5 per cent on year).

Emma Tucker

RESULTS DUE

THE TWO largest UK banks, Barclays and National Westminster, announce their half year results this week, together with **Abbey National** and **Standard Chartered**.

Abbey National's profits today may well disappoint the market, at least by comparison with the sparkling performances it has given in previous years. High bad debts will probably push last year's £308m pre-tax profits down to around £270m.

National Westminster tomorrow is likely to report profits not far from last year's poor performance of £101m.

Standard Chartered turned in £83m at the interim stage a year ago. Forecasts for its latest result on Wednesday range from around £60m to slightly above last year's figure.

Barclays' results on Thursday will attract the most attention. Heavy provisions are likely to drive its half-year figures well below its £378m pre-tax profit at the half-way stage last year. SG Warburg forecast profits of only £120m – a very disappointing figure for the UK's largest bank.

A dividend cut of up to 50 per cent is widely expected when British Petroleum reports second quarter figures on Thursday. The June firing of Mr Robert Horton, chairman and arch-defender of an unchanged dividend, cleared the way for a more realistic payout. Income on an historic cost basis is likely to have slumped to about £100m from £243m.

Royal Dutch Shell has fared much better and will turn in net income of about £520m against £532m on the same day.

Unilever will report on Friday second quarter pre-tax profits of about £490m (£448m). It will have benefitted from a cut of about £20m in interest costs, thanks to debt reduction and from a pick up from the tough year-earlier quarter. Sales of some products such as perfumes were depressed then by lower tourism in the wake of the Gulf War.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Acal 3.9p
Amersham Intl. 8.8p
Attwoods 1.75p
BOC 11.0p
Campbell Soup $0.195
Courtaulds 9.35p
Davenport Vernon 1.5p
EFM Income Tst. 1.275p
Heavitree Brewery 0.6p
Do. A Lim. Vtg. Ord 0.6p
Johnson Matthey 6.65p
Lynx Hldgs. 0.25p
Pacific Telesis $0.545
Portsmth. & Sunderland News. 5.87p
Southwestern Bell $0.73
TSB Bk. Channel Islands 3.2p
Treasury $8\frac{1}{2}$pc 1994 £4.25
US West $0.53
Waddington (John) 4.3p

■ TOMORROW
Anglo American Corp of S. Africa R2.55
BAA 8.75p
Consolidated Co. Bulfontein Mine R0.0425
De Beers Cons. Mines R1.00
Do. 8pc Cum. 2nd Pref. R0.04
Griqualand West Diamond R0.205
Hicking Pentecost 2.2p
Metsec 3.7p
Midlands Radio 1.5p
Tiger Oats 5.5pc Cum. Prf. R0.055
Westpac Banking 10pc Sub. Bds 1996 $411.11

■ WEDNESDAY
AUGUST 5
Archimedes Inv. Tst. 9p
Baggeridge Brick 0.75p
Borthwicks 0.6p
CSR A$0.10
Deelkraal Gold R0.15
Driefontein Cons. R1.00
Eksportfinans 12.25pc nts. 1996 6.125%
Fenner 1.7p
Gold Fields Coal R0.40
Kloof Gold R0.50
Local Authority $10\frac{3}{8}$pc 10.2.93 £5.1875
LPA Inds. 1.65p
Martin Currie Euro. Inv. 0.2p
Pegasus 3.5p
Southnews 1p

■ THURSDAY
AUGUST 6
Continous Stationery 1.6p
Grindlays Eurofinance Gtd. Fltg. Rate Nts. $265.42
Hapoalim Intl. $222.75
Quadrant 2.35p
Renold 1p
Whitbread $7\frac{3}{4}$pc Red. Deb. 1989/94 £3.875

■ FRIDAY
AUGUST 7
Bristol & West Bldg. Soc. Fltg. Rate Nts. 1994 £257.65
British Petroleum 4.2p
Cape 7.5p
Chloride 6pc Cum. Prf. 10.5p
I & S Optimum Inc. Tst. 1.85p
Kleinwort Charter Inv. 1.25p
Lendu Hldgs. 0.3p
Marks & Spencer 5p
Powell Duffryn 16p
Randfontein Gold R0.60
River & Mercantile Amer. Cap. & Inc. Tst. 1.8p
Christian Salvesen 4.1p
Watson & Philip 4.2p

■ SATURDAY
AUGUST 8
Readicut Intl. 2.81p

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
ACT Group, The Hyatt Regency Hotel, 2 Bridge Street, Birmingham, 10.00
Associated Energy Services, The Gatwick Hilton, Gatwick, West Sussex, 3.30
Betterware, Centre City Hotel, 7 Hill Street, Birmingham, 10.00
BOARD MEETINGS:
Finals:
Benson
Trencherwood
Interims:
Abbey National
BBA
Clarke Foods
Govett
Lilleshall
TR Pacific Inv. Tst
Transport Developmt.

■ TOMORROW
COMPANY MEETINGS:
Charter Cons., Royal Westminster Hotel, Buckingham Palace Road, S.W., 12.00
Feedback, Winston Manor Hotel, Beacon Road, Crowborough, East Sussex, 12.00
Harland Simon, 41 Tower Hill, E.C., 10.00
Martin Currie European Inv. Tst., Saltire Court, 20 Castle Terrace, Edinburgh, 12.00
Scantronic, The Armourers Hall, 81 Coleman Street, E.C., 12.00
Vibroplant, Moat House Intl. Hotel, Harrogate, 1.00
BOARD MEETINGS:
Finals:
Kleinwort High Inc.
Radiant Metal
Interims:
Admiral
Edinburgh Oil & Gas
Law Debenture
National Westminster
Pacer Systems
TI Group
Yorkshire Chems.

■ WEDNESDAY
AUGUST 5
COMPANY MEETINGS:
Midlands Electricity, Intl. Convention Centre, Birmingham, 11.00
Racal Electronics, The Institute of Electrical Engineers, Savoy Place, W.C., 11.45
Sims Food, Sims House, Sims Food Park, Sherbourne Drive, Milton Keynes, 2.30
United Inds., Barkby Road, Leicester, 10.30
BOARD MEETINGS:
Finals:
Beales Hunter
Resort Hotels
Williams Tea
Zetters
Interims:
British Alcan Aluminium
Chieftain
GKN
Simon Engineering
Smith & Nephew
Standard Chartered
Wickes

■ THURSDAY
AUGUST 6
COMPANY MEETINGS:
BTP, The Cafe Royal, 68, Regent Street, W., 12.00
Bradford Property Tst., Victoria Hotel, Bridge Street, Bradford, West Yorkshire, 12.00
GEI Intl., The Savoy Hotel, Strand, W.C., 12.00
Hazlewood Foods, Assembly Rooms, Derby, 12.00
Manweb, Sealand Road, Chester, 11.00
Martin Shelton, The Parkway Hotel, Otley Road, Leeds, 12.00
TR Technology, Mermaid House, 2 Puddle Dock, E.C., 12.30
Yorkshire Water, Harrogate Conference Centre, Harrogate, 11.00
BOARD MEETINGS:
Finals:
Abbey
Sutcliffe Speakman
Interims:
Anglo & Overseas Tst.
Barclays
BP
Kleinwort Benson
Rotork

■ FRIDAY
AUGUST 7
COMPANY MEETINGS:
Electrocomponents, 21 Knightsbridge, S.W., 12.00
London Electricity, QEII Conference Centre, Broad Sanctuary, SW., 11.30
Vodafone, The Institute of Elecrical Engineers, Savoy Place, W.C., 11.45
BOARD MEETINGS:
Finals:
Alliance Tst.
SEET
Wholesale Fittings
Interims:
Fairway

Company meetings are annual general meetings unless otherwise stated.

THE BARCELONA OLYMPICS

Pelota: blink and you'll miss it

By Keith Wheatley

LITTLE in one's sporting life can prepare the Anglo-Saxon reporter for the confusion – and impact – of pelota. First the confusion. There are ten varieties of pelota, none of them played in Barcelona until the Olympics arrived.

"Basque pelota?" murmured my Catalan friend Enric when asked for information. "I think we had a project about it in school. But I remember nothing."

Lesson 1: pelota may be big in the Basque country, Mexico, south-west France and even Uruguay but in Barcelona it is the big zero. Its presence at the Olympics as a demonstration sport owes everything to regional politics and trade-offs within Spain.

Then Enric remembered an acquaintance who had once been pelota specialist for the respected El Pais newspaper.

> The game's presence at the Olympics as a demonstration sport owes everything to regional politics and trade-offs within Spain

This caused a degree of mirth in the company comparable to naming a real tennis correspondent for The Sun. Unfortunately our expert was away on another assignment. Probably covering caber-tossing in Scotland.

All this was forgotten and forgiven when confronted with the spectacle itself. Long-court pelota is the fastest ball game in the world. Top professionals serve the hard leather ball at around 160mph. It emerges from the curved wicker basket the players wear strapped to their wrists with the speed of a well-struck golfing three-iron. Squash is slow motion in comparison.

Marble is the only cladding material for the walls of a pelota court. They have tried concrete but it pitted and crumbled under the impact of these tangerine-sized projectiles. All of which contributes to the enormous cost of a pelota court, for it is 60 yards long, 20 wide with walls 44ft high.

Barcelona has built a special complex, the Pavello de la Vall d'Hebron, for pelota at the Olympics. It is a brick blockhouse, resembling London's Battersea power station but without the charm of the chimneys. Local taxpayers grumble at the $6m cost and wonder who exactly is going to use it once the Games are gone, but if it keeps the Basques happy and the bomb count at zero...

With the softer and slower varieties of the game, hand singles (with no racket and a rubber ball), and palette, played with a simple wooden bat, the front wall is of plexiglass to allow the raucous and riotous tiers of spectators an adequate view. In full-length cesta punta a steel mesh net, rather than glass, is required to contain the velocity of the ball safely .

Only the very best co-ordinated ball players have any hope of being able to scoop this leather bullet into the basket from mid-air – given the speeds involved, it seldom touches the floor – and give it a two-handed acceleration that has been recorded at up to 185mp. Many of these shots must be performed in mid-air, leaping for the ball.

Danger exists, too. As with squash, some of the trickiest plays involve a ball travelling parallel to and very close to the side wall. Hurling themselves across the court, players have split their heads open and died. Each pair must now wear crash helmets but broken bones still occur.

The hand variation of the game is similar to fives, although with older roots. Women play a gentler variation still.

Research has show that Egyptians, Greeks and Romans played a game very similar to pelota. Curiously, considering the later invasion by the Spanish, there is also some evidence that the Mayan civilisation enjoyed a variety of the game. Paintings from the medieval period around Bilbao show pelota being played in church squares and the porticos of grand houses.

Since this is the final year for demonstration sports at the Olympics, pelota is probably making its first and last appearance outside the Hispanic world. Catch it now on TV or, if you are passing a curious brick bunker on Passeig Vall d'Hebron, drop in.

Blink, and you will miss it.

Jackie Joyner-Kersee of the US wins the women's heptathlon. Right: UK cox Garry Herbert and Greg and Jonathan Searle after winning gold in the coxed pairs

Christie steadies UK nerves

After the drugs fuss Britain's 100m victory was a tonic, says Peter Berlin

STRANGELY, one of the beneficiaries of British sprinter Jason Livingston's positive drugs test is his training partner, Linford Christie, whose victory in the Barcelona 100 metres on Saturday is being hailed as one of Britain's brightest-ever gold-medal performances.

Livingston's disgrace has drawn attention to the number of random drugs tests British athletes have faced – at home under local jurisdiction and at international sports meetings. When it comes to samples, Christie has filled almost as many bottles over the last 12 months as a Coca-Cola plant – and every one of them free of artificial additives.

The absence of Livingston and the presence of Canada's Ben Johnson in the first rounds of the 100m served as a reminder that no Olympic 100m medal these days comes without the tarnish of suspicion. Johnson won the Seoul 100m four years ago but was found to have taken drugs, and lost his medal.

As Tony Ward of the British Athletic Federation said last week: "No one could make any assurance that no other members of the [British] team are taking drugs." By showing that, in Britain, some cheats are being caught, Livingston polished Christie's gold a little brighter.

Christie won impressively. Frankie Fredericks of Namibia, who won the silver, and Bruny Surin of Canada (fourth) made better starts, though it is an illusion that sprinters accelerate through the race. Most runners stop accelerating at between 20m and 40m. Christie ran that stretch in 1.71 seconds to draw level with Fredericks.

Subsequently, Christie alone held his speed while all around were losing theirs. He ran each of the last three 20m stages in 1.74sec. As Christie surged away from the field, the crowd's roar grew, for Christie has an appealing dignity and was a European breaking the US stranglehold on world sprinting.

Christie's victory in the blue riband event relegated Spain's judo gold medal to the rank of front-page filler in Spain's Sunday papers. *Vanguardia* ran a huge colour picture over the headline "The sprint returns to Europe", although by Page 2 Christie had become "a Jamaican with a British passport". It matters little. On Saturday he was the world's fastest man.

By the standards of top-class 100m races, Christie's margin of victory – 0.06sec – was crushing. In Tokyo in the world championships last year, 0.06sec covered the first four finishers, with Christie in fourth. Christie ran 0.04sec faster that day than on Saturday, but in the Olympic final he beat two of the Americans who headed him then.

After his win, Christie was asked repeatedly about the man who had won in Tokyo, but was not even entered in the Barcelona 100m: Olympic multi-gold winner Carl Lewis of the US. Christie merely smiled and shrugged.

As Dennis Mitchell, the US winner of the Olympic 100m bronze, said when asked about his race: the 100m is a race of tiny margins; a runner has to be perfect to win. It is not Christie's fault that the US selection system doubles the number of times a sprinter must be perfect and spreads them over two months.

Christie is 32 - "going on 33", he remarked with relish. The next oldest finalist was Ray Stewart, 28. Christie is the oldest Olympic 100m champion and knows that at his age he was lucky that his body was in perfect shape at the right time.

He also knows that Lewis was extremely lucky to win six consecutive world championship and Olympic 100m golds without once having an imperfect day. Following Tim Witherspoon's injury in the 100m semi-final, Lewis should now get a chance to appear next Saturday in the 4 x 100m relay.

However, a row is simmering in the US team over whether its other dominant runner, Michael Johnson, will be allowed to bring down the curtain on the last full day of the Games in the 4 x 400m relay. Officials told Johnson that he would be picked for the relay even if he did not run in the 400m trial.

Apparently no-one told the other triallists, who are not happy.

Either way, Christie will be among Johnson's 200m rivals, though this event has always been Christie's second string. Just 36 hours after filling yet another bottle, his lust for victory may be pleasantly dulled.

OLYMPIC NEWS IN BRIEF

Unified hammer all opposition

Barcelona '92

Andrei Abduvaliyev made up for past disappointments by winning gold as the Unified Team swept the medals in the hammer. The 26-year-old from Tajikstan won with a throw of 82.54 metres on the fourth of six efforts to leave European champion Igor Astapkovich with silver and Igor Nikulin with bronze.

It was the fourth time in a row athletes from the former Soviet Union have swept the medals in the hammer at an Olympics. In future, however, the three medallists will be competing for different republics.

The Unified Team also saw success in the women's 3,000m. Elena Romanova won in 8 minutes 46.04 seconds. The silver medal went to teammate Tatyana Dorovskikh, with Angela Chalmers of Canada third.

Heptathlon gold for US

Jackie Joyner-Kersee became only the second American woman to win the same title in two straight Olympics by capturing the heptathlon gold. Joyner-Kersee, who won silver at the 1984 Los Angeles Games and gold at Seoul in 1988, finished with 7,044 points – her best mark since a world-record performance of 7,291 points at the 1988 Olympics.

Irina Belova of the Unified Team won silver with 6,845 points and Sabine Braun of Germany captured bronze with 6,649.

The only other American woman to win back-to-back Olympic titles is Wyomia Tyus, who triumphed in the 100m in 1964 and 1968.

High jump title for Cuba

Javier Sotomayor of Cuba, the only person ever to clear 2.44m in the high jump, won the gold with a leap of 2.34m – the lowest winning height since 1976. Patrik Sjoberg of Sweden won the silver and there was a three-way tie for the bronze between Hollis Conway of the US, Artur Partyka of Poland and Tim Forsyth of Australia.

McColgan in 10,000m final

World 10,000m champion Liz McColgan of Britain said she felt "absolutely fine" after expending no more energy in hot, humid conditions than was necessary to reach Friday's 10,000m final. She trekked home in leisurely fashion.

Yachting gold for Spain

Spaniards Luis Doreste and Domingo Manrique won the gold medal in yachting's Flying Dutchman class. Paul Foerster and Stephen Bourdow of the US were second, with Jorgen and Jens Bojsen of Denmark third.

Mother of all defeats

A US-based boxer inflicted the mother of all defeats on an Iraqi fighter on the second anniversary of Iraq's invasion of Kuwait. Fao Maselino of American Samoa scored a technical knockout over Furas Hashim, putting him down after 54 seconds of the first round.

Mind over matter as arrows fly

To a degree, top archers are split personalities. Nicholas Woodsworth watches them in action

I HAVE always pictured archery as a thrilling sport. If it was not men in Lincoln green shooting down stags in forest glades, it was bands of yeomen good and true splitting each other's arrows in merry village competition. But it is not that way, at least not in the Olympics.

I had a very good seat in the stands last Friday at the men's individual 90 metres and 70m elimination event. Directly in front of me, their backs to the stands and their arrows pointing down-field at 25 brightly coloured targets, spread a long line of 75 archers. The competition began merrily enough with drumming from Spanish supporters in medieval robes. But when the arrows began to fly, it became very confusing indeed.

To the naked eye the yellow inner ring of an archery target 90m (more than 295ft) distant is about the size of a pinhead. Even with my binoculars, I had difficulty seeing arrows strike anywhere. Viewed end-on, an arrow is a tiny thing – archers themselves use scopes to verify their shots. With groups of three competing archers firing simultaneously at a single target, it was impossible to tell whose arrow belonged to whom. My lasting impression is not visual at all, but aural: a great twanging of bowstrings as hundreds of arrows flew invisibly to their destinations.

Archery is not a popular spectator sport. There is no fast and furious action, no build-up of tension, no climactic moments of victory or loss. Yet for those who practise it, it is the most competitive and demanding of sports. Deep down in every archer, under the cool nerves and air of contemplation, a tremendous battle of conflicting wills is taking place.

The battle is one that assumes cerebral, near-spiritual proportions. All accomplished archers are, to some extent, split personalities. On one hand, after years of daily training, they possess an instinctive, automatic and subconscious mastery of their art.

On the other hand, on the day of competition they are like lesser mortals: their conscious minds are worrying about the strength of the opposition, calculating the chances of success, or fretting over the heat, the humidity or the effects of last night's seafood paella. In other words they are nervous, and nerves are the archer's greatest enemy.

The art of archery, then, is to still the conscious mind, block it out no matter how desperately it wants to help, and let the sub-conscious master inside take over. It is a subtle skill, and to achieve it many archers use a meditational technique – constant repetition of a word or phrase, meaningless in itself, that stops conscious thought processes interfering with the inner mind's control of the body.

Britain's Steve Hallard, who has competed in world championships or Olympic Games every year since 1983 and qualified on Friday for further elimination rounds, repeats the three words "smooth constant draw" incessantly to himself throughout his matches.

"Mentally you have got to be right," he says. "I shoot with my unconscious. Those who are consistent winners are the ones who get on a high mental plane."

Such techniques are far from gimmicks. These days it is being recognised that the psychological component in sport is all-important. Archery's mental techniques, however, originated long ago in the Far East, where technical development of the laminated bow dramatically changed the nature of warfare. The bow's power gave it almost magical status in battle, and a symbolic, ritual role in peace-time.

For educated mandarins in China, archery became a form of meditation in itself: adepts would induce a ritual trance before practising their art, and found it so satisfying spiritually that they developed a school of Zen poetry extolling archery's virtues.

In Japan, more than 50 separate schools of archery evolved. Some were quasi-religious in nature, others more exhibition-oriented: in 1870 president Ulysses S Grant witnessed the last public performance of *inouimono*, an event where mounted archers took turns shooting specially constructed whistling arrows at packs of released dogs.

There were no dog-shooting events in Barcelona on Friday, but the predominant role of archery's mental discipline was evident.

One indication was the physical make-up of the archers. They come in all sizes, from tall and thin to short and solid. Physical strength has little importance in archery. One might imagine that brawny arms make a good archer. In fact a straight arm, unencumbered by muscles, allows the bowstring to pass unhindered from the face to the bow; the arms are used as levers so that the pressure of drawing the bowstring is transferred to the shoulders and the back. If an archer develops muscles, he is doing something wrong.

If the necessary mental balance is achieved, so is perfect physical balance, and that, in mechanical terms, is what archery is all about. The archer's skill lies in maintaining absolute equilibrium while at the same time accommodating two opposing forces – the push necessary to hold the bow away from him with one hand and the pull required to draw the bowstring towards him with the other. The slightest tremor or imbalance means an arrow out of true: a deviation of just $\frac{1}{16}$-of-an-inch will cause the archer to miss the target entirely.

So consistent are good archers in their aim that just one or two arrows gone astray out of a round of 72 can mean the difference between winning and not placing. In Friday's competition, the winner, the Unfied Team's Vladimir Echeev, did not have an arrow in his first 66 shots out of the 4½-inch-diameter bull's eye.

But then Echeev has archery's age-old mental and physical discipline in his blood. He is a Tajik from the steppes of central Asia. His cheekbones are high and angular, his complexion oriental, his eyes long and narrow. With those looks he might be descended from Ghengis Khan himself.

After ICI's plan to split in two, **Andrew Campbell** cautions companies against over-diversification

Stick to your knitting

Imperial Chemical Industries' plan to divide its business into two is the strongest evidence yet that big, diversified corporations have had their day.

By cutting itself up, ICI is following an increasingly popular path. Racal, Courtaulds, and USX (the old US Steel) have all successfully created value for shareholders in this way.

Although their motivation may have been to avoid the attentions of corporate raiders, they have acknowledged that their companies were previously over-diversified.

The past 12 months have been littered with examples of the dangers of companies diversifying into too many different areas. British Aerospace plunged into cars, property, construction and munitions – with such bad results that the chairman and finance director quit. British Petroleum has been reversing its unhappy moves into minerals and nutrition in an attempt to bring some stability to its oil and chemicals businesses. The three most recent big hostile bids – Ultramar, Hawker Siddeley and Dowty – have also been examples of excessive diversification.

Managers are constantly being warned against diversifying. The best read management book – "In Search of Excellence" by Tom Peters and Robert Waterman – devotes a chapter to the topic, entitled "Stick to Your Knitting". Peters is not a lonely voice. Most management textbooks, articles and researchers conclude that diversification is to be treated with caution. The danger is not diversification in itself, but over-diversification: managers getting *into* businesses they do *not* fully understand.

So why do companies do it? Why do well-intentioned managers risk their own reputation and the independence of their companies by acquiring businesses that they do not understand?

The first reason is to spread risk – which often means getting into businesses that are unfamiliar. Managers are concerned to avoid excessive focus. "We mustn't be too dependent on the UK economy." Or, "We mustn't have more than 40 per cent of our portfolio exposed to the building cycle". Or, "We are too reliant on sales to Marks & Spencer".

The desire for a spread of interests is very strong. But for whose benefit is the manager seeking to spread risks? The shareholder is unlikely to benefit because fund managers are able to spread risks much more efficiently than corporate managers.

Neither are the employees likely to gain, because their skills are not easily transferred from one business to another.

The main beneficiary is the corporate manager who can see greater job security. If one leg of the business collapses he is still needed to look after the other legs.

Yet this additional security is a fallacy. By getting into unfamiliar businesses managers make their jobs less secure. They could protect their future better by out-performing competitors at businesses they know, rather than by hedging their bets.

The second cause of over-diversification comes from managers' deeply held belief in growth. As the board member of one big company said recently: "If you don't want to grow your business, you should become a civil servant."

Growth thinking is not wrong. Shareholders want growth in their investments and employees like it because it provides career security and advancement opportunities.

If the prospects for the industry are low growth, managers start looking for higher growth opportunities.

Unfortunately, when low growth is the motivation for diversification, the prospects for success are particularly low. Managers of maturing businesses usually have little experience of other industries; when they are aware of opportunities elsewhere, those opportunities have often been fully exploited.

This causes managers to take risks in less familiar areas – the classic over-diversification problem. It is not surprising, therefore, that the failure rate is high. Take the oil industry.

Every big oil company lost confidence in the oil industry in the 1970s and set out to find other, ideally high growth, businesses to exploit. The record of success, based on 15 years' experience, has been very poor.

If the biggest and best companies in the world, able to attract the best management talent, hire the best advisers, and spend billions of dollars, are not able to succeed, it is unreasonable to expect lesser companies to do better.

So what is the solution? Should managers in mature businesses focus on managing their own decline? The answer, frequently, is yes. Focusing on maturity can be far preferable to risking all in unfamiliar areas.

Unless there are growth areas where the company has or could create some clear advantage, managers should avoid the macho of high-growth objectives. Investors can be just as content with stable performance and high dividend yields.

There is no reason why a company should not be ambitious to produce a performance similar to an undated government bond (i.e. low growth but secure returns). Moreover, so long as managers run their businesses better than other management teams, there is no "under performance" and hence no room for a takeover bid. Managing in a stable environment can be attractive to all stake-holders.

One of the best examples is Crown, Cork & Seal. Spotted as a Harvard Business School case in the 1970s, it has been a model for others to follow.

Unlike its competitors, Crown did not diversify away from the mature canning business into higher growth packaging. Instead, Crown focused on becoming the most flexible and most service-orientated canning company. It invested in developing countries where canning operations still provided small growth potential. Excess cash flow was used to pay attractive dividends and buy back shares. During the 1980s the company bought back more than half its total issued share capital.

The sense of Crown's strategy was underlined in the late 1980s when most of its US competitors decided to separate their canning operations from their other packaging businesses through demergers and leveraged buy-outs. This proved something that Crown managers had known all along – that canning and plastic packing do not fit comfortably in one portfolio: the skills needed in the two businesses are different.

The distaste managers have for managing decline is widespread, and has provided companies such as Hanson and BTR with easy stepping-stones to the top of British industry. If the average manager's ego was less tied to growth we would not need Hanson, Williams Holdings, or KKR to do other people's dirty work.

Taken together, the fear of excessive focus and the desire for growth are likely to continue to lead the unwary board of directors into trouble. It is only by rooting out the woolly thinking that surrounds risk spreading and growth objectives that directors can keep their companies safe from one of industry's most deadly diseases.

The author is a director of Ashridge Strategic Management Centre

Time for a change when energy drains

Avoid those tasks which get you down, say **Jean-Louis Barsoux** and **Rosemary Stewart**

Time management is about using time effectively and efficiently. Its theorists believe the way to achieve more is by better organisation.

Contrary to what time management experts would have you believe, the secret is not about squeezing more work into less time, but about having a vision of what is possible, and having the stamina to see it through.

Considering how to use time effectively is where "energy management" comes in.

There are times when we abound with energy and other times when we have very little. Some activities and some people enhance one's energy while others deplete it.

When we are interested, we participate enthusiastically and even feel revived at the end. When we are bored or frustrated our energy is sapped.

Most managers recognise the feeling that their energy reserves have sprung a leak. For some it is the rigmarole of meetings which has that effect. For others it is administrative work or strategic matters.

Some managers find particular types of people wearisome – customers, salesmen, journalists, foreign counterparts.

Certain types of work have a disproportionate drain on managers – though managers each differ in what they regard as debilitating. Ideally, energy-depleting activities need to be minimised – either by limiting one's involvement or by delegating them to someone who does not mind so much.

But there is another way of making one's energy supply go further, and that is by increasing the initial stock. Unlike the expenditure of time, our levels of energy can be replenished.

Some activities leave you "on a high" afterwards. Some managers thrive on the pressure of deadlines, others get a buzz from empowering others – leaving them "on a roll", ready to take on greater challenges.

But even the most stimulating activities are short-lived. Either the manager reaches saturation point, or else the activity itself changes form.

There is often a symmetry in what managers like and dislike about their jobs. They may like the variety of their work but dislike its episodic nature; or relish the action but be frustrated by the lack of time for reflection: likes and dislikes are often two sides of the same coin.

So, even where managers can identify something as "energising", they will also, at times, seek refuge from that activity. They tend to switch between tasks to try to top up their energy levels. The sedate and familiar nature of administrative work might provide welcome relief from the hurly-burly of strictly managerial work. Technical work – a sales manager selling, a production manager manufacturing – can be used like a revitalising hobby.

Engaging people in conversation is pleasurable and can provide relaxation in anticipation of a heavy workload. Each type of work has its regenerative benefits at different times.

Managers should be sensitive to their energy levels and take heed of the diminishing return signals which are the cue to withdraw from a particular activity. When managers can feel themselves drawing upon their energies just to maintain their efforts at concentration it is time for a change.

Overall, the aim should be to find a balance between excitement and relief, between exception and routine.

For example, an open door policy throws up varied and unexpected challenges. But over a whole day, constant interruptions are distracting and exhausting. The balance might come through setting aside fixed slots when the door will be open. Grouping activities in this way, can reduce the unpredictability of management work and with it the mental wear and tear of continually switching attention.

More often than not, managers have too much to do. They can use their time much more fruitfully if they keep up their energy level. But consciousness of when to switch activities and how to boost energy levels would enable managers to reduce the gap between what they think they should be doing and what they have time to do. And while ultimate victory will always elude them, managers will be able to claim that they are winning a bit more often.

Jean-Louis Barsoux is a research associate and Dr Rosemary Stewart is a research fellow at Templeton College, Oxford.

BUILDING CONTRACTS

Marbella development plan

TRAFALGAR HOUSE CONSTRUCTION MANAGEMENT has been appointed as project manager of the first £35m phase of a £105m residential and golf course development in Marbella, Spain, for Spanish company Calfin S.A.

Situated on 53 acres of land near the coast, four miles east of Marbella, the total development will be comprised of up to 600 top quality apartments, town houses and villas constructed around a golf course, country club and landscaped areas.

Construction is scheduled to take place in three phases of three years each. Each phase of the development will be worth £30-£35m.

Phase one will begin next year and will be completed in 1996. It will cover infrastructure works at the site including the installation of roads, sewerage, the profiling and seeding of the golf course and the construction of some residences. Some completed residences at the site will go on sale at the end of phase one.

Phases two and three are concerned with construction of residential buildings in different areas of the site and are scheduled for completion in 1999 and 2002 respectively.

Caribbean work for Wimpey

WIMPEY CONSTRUCTION has won two contracts in Trinidad and Tobago worth more than £9.2m. The larger is a £5.7m hospital extension for the Trinidad and Tobago Ministry of Health. In a 22-month contract the company will create accident and emergency units, dental and eye clinics, a dispensary, an outpatients department, and operating facilities

The second scheme is a £3.5m design and build contract to provide a 200 metre extension to Savonetta Pier at the Point Lisas industrial estate in Trinidad. Berthing facilities for tankers will be built, together with a jetty to support pipelines for the transfer of bulk liquids.

Upgrading water reclamation works

COSTAIN ENVIRONMENTAL SERVICES has been awarded an £11.2m contract by Severn Trent Water for what is believed to be one of the biggest mechanical and electrical (M&E) contracts to be awarded in the industry this year.

Costain was one of seven companies bidding for the contract to extend and refurbish the Netheridge Water Reclamation Works which serves most of Gloucester's city urban area.

Built in the late 1950's, the plant is still geared to its original dry weather capacity of 17m litres per day (ml/d). With population growth, the capacity forecast for the year 2001 is 42 ml/d dry weather flow (DWF) which, together with the need to process waste from a major new food plant, requires the plant to be upgraded.

At present, Netheridge provides primary treatment only to storm water and sewage. In order to meet the increased demand and the standards set by the National Rivers Authority and European Community municipal waste water directives, secondary treatment will be introduced. The capacity of the works will be 108 ml/d DWF, with a storm treatment capacity of 235 ml/d.

Costain's work includes the design, supply, installation and testing of all M&E equipment, including high-voltage electrical supplies and SCADA systems.

New York shopping

LEHRER McGOVERN BOVIS INC has been appointed construction manager for the expansion of the Staten Island Mall, a large retail complex on Staten Island, New York.

The 16-month project involves the construction of a two-storey addition to the existing mall, which will provide an additional 170,000 sq ft of space, connecting with an adjacent J.C. Penney's department store, which is to be built simultaneously.

Inland Revenue offices in Sussex

WARINGS, Portsmouth, has won a £7m design and build contract for new Inland Revenue offices at Durrington-on-Sea near Worthing.

The four-storey brick and block clad building with pitched aluminium roof will be located on the car parking areas to the east side of the office buildings forming the Worthing headquarters.

Planned in the form of a rectangle with a landscaped central atrium, the building is designed to allow easy communication and flexibility.

The 75,000 sq ft building will re-house around 470 Inland Revenue staff already working at the Durrington complex. Work on the 89-week contract is scheduled for completion in April 1994.

Coldunell has awarded the company a £1.7m contract for the total refurbishment of the Mitre Hotel at Hampton Court. Work has started and completion is scheduled for autumn 1993.

Other recently awarded work includes a £610,000 refurbishment for W.H. Smith in Fareham and a £380,000 award for alterations to the loading/unloading bays at Sainsbury's distribution depot in Basingstoke.

Oil refinery project

The Aden Refinery Company has appointed CONSOLIDATED CONTRACTORS INTERNATIONAL COMPANY (CCC) of Athens as contractor for the tank farm development at Little Aden oil refinery in Yemen. Rendel Palmer & Tritton is responsible for design verification and construction supervision.

The contract, the latest phase in the development of the refinery, entails the construction of 16 storage tanks for crude oil and refined products.

£28m orders won by Lilley Group

The LILLEY GROUP has won £28m of new orders. This work has been awarded to regional companies throughout the UK and includes contracts for housing, infrastructure works, water and marine works, petrochemical projects, and defence.

Of specific note are a £4.9m award for the refurbishment of a pipeline at Sellafield for British Nuclear Fuels, won by Eden Construction, and a £2m conversion and upgrading at HMS Mercury's special communications unit in Hampshire, awarded to Henry Jones Construction.

£17.4m workload for Ernest Ireland

Contracts worth over £17.4m have been won in the south and west by ERNEST IRELAND CONSTRUCTION.

The largest contract, worth £3.1m, involves building an extension to Holdenhurst Sewage Treatment Works outside Bournemouth. The extension of the Wessex Water-owned plant will allow treatment capacity to be increased by 50 per cent. Eight settlement tanks of 25 metres diameter and a six lane 10,600 cu metres aeration tanks form the core of the new works which will also include two pumping stations, inlet works, control buildings and associated pipelines and ducting.

Also being handled by the Bournemouth office is a £1.8m conversion contract in London's Park Lane where two Victorian town houses are being turned into five apartments. The Bristol office has been awarded a £2.1m fitting out contract at the new Mercury Communications office on Bristol's Almondsbury Business Park. Work has started on the installation of air conditioning, data cabling and restaurant facilities.

Further to a £2.5m shell contract for a Tesco supermarket at Didcot, the Swindon office has begun work on a £3m contract for the fitting out of the superstore.

PEOPLE

TI puts finishing touches to Dowty

TI GROUP announced the final set of senior management changes following the takeover earlier this summer of the Dowty Group. Sid Taylor (right), a TI director and formerly managing director, operations, will become chief executive of the new Dowty Group, which will consist of Dowty Aerospace, TI Aerospace and Dowty Electronic Systems Division.

John Edwards, TI financial controller, and Richard Cropper, TI commercial director, are appointed finance director and commercial director, respectively, of the Dowty Group. All the appointments take effect from August 3.

Jim Lightfoot will continue as Dowty Aerospace managing director, and Colin Cocks as managing director of Dowty's electronics systems division. As already reported, Bruce Ralph has resigned as Dowty chief executive and will undertake special duties.

■ Rank Xerox has appointed Hervé Gallaire as director of its new European Research Centre.

Gallaire's move comes at a time when Rank Xerox is aiming to expand its presence in Europe. The group recently announced that it was investing 235m Ecu in manufacturing, development and research in Europe, expanding existing sites in France, the Netherlands, Spain and the UK. A new Dutch factory will open in September. Part of Gallaire's responsibility will be to set up a new laboratory on mainland Europe, the site of which will be decided in the near future.

Before joining Rank Xerox, Gallaire was vice president of software development at GSI, a leading French software company, and has also held the post of vice president of software development at Bull, the French computer company. Gallaire set up the European Computer Industry Research Centre in Munich, as managing director.

■ Sunleigh, a company which used to make machine tools and welding equipment, now specialises in electronic golf carts, dinghies, catamarans and sportswear. Among Sunleigh's customers are the St Andrews golf club, which it provides with crested sweaters and shirts. To complete its move into the leisure business, the company, a late 1980s management buy-out from engineering group Babcock, has appointed Robert Upsdell non-executive chairman. Upsdell, 58, held the same position at Gavel Securities, makers of Laser Dinghies and Dart Catamarans. When Sunleigh acquired a majority interest in Gavel it appointed Upsdell a non-executive director. Upsdell previously held senior positions at Courage, EMI Leisure and Ladbroke. He replaces Sandy Saunders.

Departures

■ Dan Davies has resigned because of ill health from A COHEN & Co.
■ Keith Negal has resigned from FARRINGFORD.
■ William Dickens, director of technical affairs, will retire from SOUTH WEST WATER in September.
■ Robert Keens has retired because of ill health from HOME COUNTIES NEWSPAPERS HOLDINGS.
■ David Robinson, director of external affairs, is to retire from the ROYAL BANK OF SCOTLAND.
■ Leslie Lane is retiring from BRIXTON ESTATE.

Brian Richards, co-founder of British Bio-technology, has been appointed a member of the steering group responsible for overseeing LINK – the government-wide initiative for supporting collaborative R&D between UK industry and the research base.

Richards, 59, spent his early career as an academic. As reader in biology at King's College, London, he organised the first School of Biology in the UK. He left to found the world's first molecular biology-based industrial research laboratory for GD Searle before going on to set up British Bio-technology in 1986.

His company, whose aim is to develop an entrepreneurial approach to R&D for new pharmaceuticals, is an active participant in several LINK projects.

The first LINK programmes were announced in February 1988 and the government has committed itself to provide through LINK up to £210m support for collaborative R&D programmes, with industry providing matching support on a project-by-project basis.

The LINK steering group is responsible for endorsing new programmes submitted to LINK, and for reviewing progress on existing programmes. It is chaired by Robert Malpas, a former director of ICI.

Laporte loses another director

Laporte, the specialty chemicals group, has lost another director; Keith Sansom, who had been in charge of strategic planning, resigned last Friday. "I enjoy running things," says Sansom, 48, who headed Laporte's Australian operation for seven years. He is off to explore the possibilities of setting up his own venture capital chemicals business.

While he claims the parting is "amicable", chief executive Ken Minton has seen three resignations from his board in the past 18 months, which leads analysts to suggest that his management style may have played a role. Hans Seidl left the board recently, though he is still running Laporte's German operations; Mike Fearfield left at the beginning of 1991.

Minton strongly denies any pattern. "When you bring in a new chief operating officer, you must expect that some directors will look to their future." David Wilbraham joined from ICI in April.

Sansom, who joined Laporte in 1968, was sent to Australia in 1980, and promoted three years later to regional managing director. While there, he says, he and his family became "legally and spiritually" Australian citizens.

Returning to England in 1990 he was put in charge of strategic planning for the group as well as becoming operational head of metals and electronic chemicals, and other areas. Asked whether he had regarded himself as a candidate for Wilbraham's post he commented, "Yes, two years ago, but probably no as time went by". He puts that down to "style, through to the shape of the company".

Bringing in Wilbraham has meant that Minton himself has more time to devote to strategic planning.

While the company said Sansom was "returning to Australia in due course", Sansom explains that might well be ten years off, if his venture capital business takes off in the UK.

Finance moves

■ David Hunter, a former director of Lehman Bros, has been appointed a director of NCL INVESTMENTS.
■ Peter Geer has been appointed regional chief executive Asia for BARCLAYS and BZW based in Hong Kong, following the retirement of Mark Tress. Geer is succeeded as director ASEAN (banking) based in Singapore by Philip Howell, currently deputy director. Christopher Haviland, currently regional director Asia/Australasia, based in London, becomes deputy md Barclays Banking Division, with responsibility for the Caribbean, Africa and the Middle East, and India.

Architecture/Colin Amery

Building with an eye on history

Bracken House in London, one-time home of the FT and the first post-war building to be listed

WAS MODERN architecture designed to be part of history? The answer has to be yes and no. Many of the pioneers of modern architecture derided history and were determined not to build for a long future. Many modern architects in this century have associated the idea of creating monuments with tyranny, privilege and the class system. They wanted, instead of being part of the weight that architectural history and preservation lays upon the earth, to be lightweight, functional and part of the motion of change.

Many architects who have been working in the UK in the recent past must have been surprised to find that their buildings are the subject of examination by official historians for the purposes of statutory listing and protection. Last week English Heritage and the Royal Commission on the Historical Monuments of England presented an exhibition and held a Seminar at the Royal College of Art in London on the subject of the listing of post-war buildings. The exhibition, "A Change of Heart – English Architecture Since The War, A Policy for Protection" – is open on weekdays from 10 am to 8 pm at the Royal College of Art, Kensington Gore, London, SW7. It is going on tour to Chelmsford, Birmingham, Bradford and Exeter. It is sponsored by Pearson (owners of the FT) and the Obayashi Corporation – the two most recent owners of the first post-war building to be listed, Bracken House in the City of London, once the home of this newspaper.

The period under examination is 1945-1975 – a period that it is hard to think of as history. A new approach is needed for post-war architecture because, unlike so much of the architecture of the past, it concerns not just a relatively few listed buildings but often a mass of housing estates, new towns and whole universities.

It is a period that is difficult to look at with clear, unprejudiced eyes, and it will take time to analyse and establish objective standards of judgment. The fact that many of the creators of the post-war environment are still alive makes it more interesting, but in my view much more difficult for historians to make totally independent judgments.

At the seminar in London, attended by historians and architects, there was clearly already a division of opinion about the best way to proceed on this thorny subject between Miss Jennifer Page, chief executive of English Heritage, and Mr Martin Cherry, who is in charge of listing buildings. Miss Page stressed the importance of the political context and demonstrated her own lack of political skills (or was she showing how independent a quango English Heritage has become?) by making invidious and personal remarks about a previous Secretary of State for the Environment and his attitude to listing. English Heritage's role is to offer the best impartial advice to ministers on historical matters, not to bite publicly the hand that feeds it.

Mr Cherry seemed to feel that politics is not the most important aspect of the context of post-war buildings and that the listing criteria should be as historically objective as possible and based upon sound art-historical principles. He is a medievalist and so his historical training would seem to lend his judgments the appropriate distance. Miss Page has done good service, I suspect unwittingly, by demonstrating the dangers of sullying the purity of debate by playing politics.

The modest exhibition, and Mr Andrew Saint's brightly argued booklet that goes with it, both show the need for a debate on this delicate subject. It was Sir John Summerson, writing about the past in the future in the 1940s, who saw that preservation was susceptible to "fatuity, hypocrisy, sentimentality of the ugliest sort and downright obstructionism." Anyone thinking about how to make an objective list of post-war buildings that should be preserved should remember Sir John's thoughts.

What is the point of preserving the recent past? It must be to show our own humility as a minute part of the flow of human history. We acknowledge the moments where we think human achievement has reached an honourable level – we cannot really do more than salute them. Ruskin was clearer on the subject because he thought that we had no right to touch the buildings of past times: "they are not ours. They belong partly to those who built them and partly to all the generations of mankind who are to follow us." I long to know what Ruskin would have thought of (a) a bureaucracy of historians and (b) post-war architecture!

The exhibition includes some excellent new photographs taken by the Royal Commission on Historical Monuments of some of the important buildings of the period. It must be the design of the exhibition that did not allow for large pictures – it is a pity that the excellent arguments are poorly served by postage stamp sized photographs. I liked the historians' categories of modern architects, from "Ancients" who maintained the flame of tradition, through "Herbivores", to "Modernists" and "Team Men". Examples of their work include Bankside Power Station in London, Nottingham Polytechnic, Stevenage Town Centre, war-time prefabs, the ghastly Trellick Tower in Kensal Green, London, and even some developers' rubbish from the 1980s.

But some examples apart, the proposed three-year study of the period has to be applauded. I would rely on historians such as Andrew Saint to ensure its total objectivity. But I would not rely on a quick reform of public opinion on this subject, or a sudden change of heart by ministers when it comes, say, to the preservation of an empty Bankside Power Station that occupies one of the most valuable sites on the Thames.

At the moment I would find it hard to see the Barbican as a conservation area, but I am prepared to consider a change of heart given adequate time to consider whether or not modern architecture ever wanted to become part of the aspic-laden world of the preservationists. After all, many modern buildings would make wonderful ruins once the inhabitants have been released.

Michael Jackson

Life has proved too much for Michael Jackson; he cancelled his Saturday concert to the anguish of 72,000 fans. But on Thursday there had been so signs of trouble. He arrived as Jumping Jack Flash, ejected on to the stage from below through a blaze of rockets, like the Good Fairy of the Panto; he left over two hours later as Rocket Man, flying over the earthlings, projected by his personalised jet pack, symbolically quitting this planet which is so obviously alien to him.

When the penny finally seems to be dropping among the public that assembling near a pop star at a vast stadium is marginally less rivetting than watching Tracey sing "My Way" on karaoke night at the pub, along comes Jackson, with a payroll of 235, 1,000 tons of equipment, and an investment equal to the GNP of Burundi, to prove that while Wembley is hopeless at laying on music it is a fine setting for spectacle.

The cameos keep coming like prize rock videos. There is Jackson the Monster Man as he recreates "Thriller" with dancing skeletons and ghouls; there is Jackson the hoodlum, gunning down his troupe in a hail of stuttering crackers at the end of "Smooth Criminal"; there is even Jackson, the pop star, gliding and sliding backwards through his Moonwalk to the pulverising rhythms of "Billie Jean". One moment he is hauled on a crane above the ecstatic fans in "Beat It"; the next he has literally disappeared, the crouching heap at the back of the stage turning to nothing while Jackson has somehow transposed himself to the front.

It helps that the eyes are transfixed because the ears are in for a bad time. Jackson could profitably spend a million dollars or two fixing the acoustics, and his voice will never progress beyond the piping. When he is on stage alone, ruefully feeling his crotch as if searching for the first signs of puberty, he looks a lost waif.

Only with the bangs and the rockets; the lasers and the ascending and descending stage; the dancers and the band fleshing him out does Jackson transform into the mega star of pop. His inspired showmanship sees him through, especially when he gets the tallest, blondest, thinnest, female guitarist in the world, dressed of course in the head-dress of a New Guinea chief, to boogie with him on stage.

But when the images on the vast screens that side the stage show home movies of the early Jackson Five, and this little black kid stares out at you, you start at the contrast with the present, at the blanched androgynous sylph uncomfortably coping with the besotted girl he has rashly hauled on stage from the crowd. That has become this; that is childhood and perhaps this is the ultimate kid's party.

And near the end, as a band of children, dressed in costumes of the nations, hold hands and circulate round a giant inflatable globe in the bathetic "Heal the World", your heart goes out in a sentimental gush.

Antony Thorncroft

Music/Richard Fairman

Three premieres

A sense of place can create a potent spell in music. To take English composers alone, it is difficult not to hear in Elgar's music the rolling expanses of the Malvern Hills, in Vaughan Williams the pastoral English countryside, or in Britten's more abrasive style, the wind-swept, open vistas of the Suffolk coast.

In John Casken's music the place is the North of England, the mood invariably grey and chill. In the works that introduced him to Promenade audiences in 1986 it was Northumberland that set the scene. This year he has returned to the North and chosen a disused mine in Weardale as the setting for his song-cycle *Still mine*, a BBC commission which had its first performance at the Royal Albert Hall on Friday.

At best, it is an evocative work, as so much of Casken's music has proved to be. There are four poems by different authors, but under the influence of an atmospheric score they combine to make a plausibly unified theme. A man leaves home to work as a miner in the North and, subsequently exiled for striking, writes to his wife of hisdreams of returning – a palpable feeling of remembrance and yearning runs through the cycle.

That emanates from the orchestra, as does most of what is good about this piece.

The orchestral textures are complex and alluring. The strings form the basic richness and density of sound; then wind, vibraphone and bells are overlaid to add brilliance to the surface. But the orchestra is large for a work of this kind and Casken is not sparing in his use of it, with the result that the score often sounded overwritten.

The voice simply did not dominate as it should, although that was not the only reason why. Despite trying to suggest some of the images in the poetry, the vocal part lacks a strong profile and Thomas Allen's mellifluous singing of its winding lines gave it none of the punch or variety that might have created one. The final impression was of a lovely sound-world, but vague, somewhat monotonous, without any live contact with the poems.

The orchestral part was in the care of Matthias Bamert and the BBC Symphony Orchestra, who had already given a carefully-detailed performance of Debussy's *La Mer*, and the evening ended with an above average account of Sibelius's Fifth Symphony, which kept its concentration through to a splendid final peroration.

*

On Saturday night the BBC Concert Orchestra under Barry Wordsworth celebrated its 40th birthday with a generous programme of Tchaikovsky, Milhaud, Gershwin and two new works by Richard Rodney Bennett.

The first, another BBC commission, was unabashed entertainment in the composer's easy listening mode: Variations on the nursery rhyme "Over the hills and far away", served in a sugary sauce and orchestrated with not so much a nod, as a deep bow to Ravel.

The other was a Concerto for Stan Getz, the saxophone player, who died last year before he could perform it. The soloist here was John Harle, a virtuoso and artistic personality equal to the flamboyant music – one foot in jazz, one in classical – that Bennett has provided. What sounds like American urban aggression propels the outer movements along vigorously, while the elegiac centre brings bluesy improvisation. It is a concerto strong on impact, well crafted to show off its soloist, professional writing in the best sense.

Theatre/Malcolm Rutherford

Sweet Temptations

There are times when it seems that the arts set out almost deliberately to give themselves a bad name. Such a reflection occurred as Jan Fabre's *Sweet Temptations* passed through London at the weekend on its way to represent Belgium at Expo in Seville. The best thing about it is the title, which turns out to be a deceit: there is nothing sweet about the production and nothing tempting.

Fabre is a young (34) Belgian artist who also has a prolific list of works for the stage behind him. His *This Theatre Like It Was To Be Expected And Forseen* lasted eight hours. *Sweet Temptations* confines itself to 3½ hours without an interval and was performed at the Queen Elizabeth Hall on Saturday and Sunday.

The dialogue is in a mixture of English and German – not that it greatly matters, for there is not a lot of it. Two middle-aged men, probably twins, sit in wheel-chairs which occasionally revolve round the stage, possibly reflecting the movement of the planets. Much of the time they sleep. When they are awake, they talk – very slowly – about owls, appearance and reality. They repeat, frequently, the line "times, they are a'changing". There are obviously meant to be cerebrally very intelligent: equally obviously they are bored. Perhaps the boredom is cosmic. There is more than a touch of Beckett in slow motion.

The point about Beckett, however, is that he knew when to stop, and he did write plays. About three hours of Fabre's piece is taken up with distractions. These include the odd military intervention – a symbol, no doubt, of Europe over the ages, what is described as "another excuse for a party" when the piece's many extras repeatedly break into dance, and a good deal of sex.

The publicity for *Sweet Temptations* quotes the *Guardian* as saying that Fabre's work is "the toast of the European avant-garde". If it is still in, it shows how profoundly, nostalgically reactionary the avant-garde has become. I saw nothing experimental in *Sweet Temptations* and no new frontiers,only a desire to prove that by going on and on, you are somehow making a point. There is no theatrical virtue in repetitive slowness.

Alastair Muir

A great deal of sex....but nothing sweet nor tempting

Sponsorship

Edinburgh Festival

These are difficult times for arts companies as they try to maintain sponsorship funding – difficult but not impossible. The Edinburgh Festival, which opens in two weeks time, has managed, just, to exceed its target for the year. It hoped to bring in £750,000, and actually achieved £770,000, the same sum as in 1991 and around 20 per cent of total Festival revenue.

It is mainly the regular raft of companies who have rallied round, led by the local banks, like the Bank of Scotland and the Royal Bank of Scotland, and the brewers, like Scottish and Newcastle.

These days the Fringe is not only as prominent as the Festival artistically; it also garners its fair share of sponsorship. Much of it is specific aid – Kwik-Fit, for example, provides the Fringe programme, and BP the daily events diary – but the main Fringe venue, the Assembly Rooms, has signed a major deal with a new sponsor, Whitbread, which is worth £60,000. Whitbread's Stella Artois and Murphy brands will be all over the Rooms, while the Dream Tent in the Meadows carries the Boddington's brand name.

Edinburgh's success probably reflects the comparative strength of the Scottish economy. Things are much tougher in London. The Royal Opera House, Covent Garden, has a new season fast approaching, and none of its five new opera productions has – to date – attracted a sponsor.

The revival of *Turandot* is being supported by UBS/*Phillips & Drew* and the gala night of *Otello* has received a mighty £200,000 donation from Boeing, one of Covent Garden's largest sponsorships ever. But the ROH needs lots of energy and luck if it is to better the £881,000 sponsorship brought in last season, which in itself was well below target.

But the arts always have the ability to mount exciting ventures which will draw in new sponsors. The theatrical producer Thelma Holt has formed a company, Infinite Space, which, in turn, has signed up Alan Rickman to play his first *Hamlet*, opening at the Riverside Studios in London in mid-September for five weeks, before going on tour.

The exercise will cost £200,000, but sponsorship has provided a total of £40,000, the money coming from the backing by two unusual first time sponsors, Morgan Creek, the film production company, and First Call. Morgan Creek made the hit movie *Robin Hood, Prince of Thieves*, which Rickman stole as the dastardly Sheriff of Nottingham. First Call, the West End ticket agency, is an obvious sponsor of the arts but apparently no one had approached it previously for backing.

Antony Thorncroft

INTERNATIONAL ARTS GUIDE

FESTIVALS

BAYREUTH
Donald Runnicles conducts Wolfgang Wagner's old-fashioned 1985 production of Tannhäuser tonight and Thurs, with a cast including Wolfgang Schmidt in the title role, Eike Wilm Schulte as Wolfram and Tina Kiberg as Elisabeth.

Giuseppe Sinopoli conducts Dieter Dorn's cool, intellectual 1990 production of Der fliegende Holländer tomorrow and Fri, with Bernd Weikl in the title role and Sabine Hass as Senta.

Danish tenor Poul Elming sings the title role in Parsifal on Wed, conducted by James Levine, with Waltraud Meier as Kundry. The second of this year's Ring cycles begins on Sunday.

The season is already sold out. Ends Aug 28. (921) 20221

BREGENZ
This summer's show on the floating stage is a revival of Jérôme Savary's production of Carmen, with alternating casts including Sally Burgess in the title role and Edmund Barham as José. There is one more performance of Harry Kupfer's new production of La Damnation de Faust in the Festspielhaus (Thurs).

Tonight's concert by the Vienna Symphony Orchestra is a Spanish programme conducted by Rafael Frühbeck de Burgos. Ends Aug 23. (5574) 4920 224

EDINBURGH
The official festival and the fringe begin on Aug 16, the Tattoo on Aug 7. Brian McMaster, the new festival director, has divided the programme into four main seasons – Scottish Music Through the Centuries, retrospectives of Glasgow playwright C P Taylor and English dramatist Harley Granville Barker, and a vast survey of Tchaikovsky's oeuvre, except the main stage works.

The dance programme includes the British premiere of the Mark Morris Dance Group, Pina Bausch's Tanztheater Wuppertal and Ballet Cristina Hoyos. Other enticing events include Queen's Hall recitals by Isabelle Vernet, Dawn Upshaw and Olga Borodina, and two evenings with Elisabeth Söderström, including a cabaret performance.

Official Festival: telephone bookings (31) 225 5756. 24-hour information service within UK 0891-600 304. Military Tattoo: (31) 225 1188. Fringe: (31) 226 5257

LA ROQUE D'ANTHERON
La Roque d'Antheron, 50km from Avignon and Marseilles, is the attractive setting for a festival which regularly attracts leading pianists. Zoltan Kocsis gives tonight's recital at the Parc du Chateau at 21.30. Tomorrow: *Rafael Orozco* plays Albeniz's Iberia. Wed: Joachim Achucarro plays works by Granados, Albeniz and Falla.

Thurs: Chick Corea. Fri: Krystian Zimerman is soloist with the Montpellier Philharmonic Orchestra. Sat: Eliso Virsaladze plays Schubert and Schumann.

Next week's guests include Anatol Ugorski and Jean-Bernard Pommier. Ends Aug 23. (16) 4250 5115

ORANGE
The two remaining performances at the Théâtre Antique, on Sat and next Tues, feature Vittorio Rossi's Verona-style production of Il trovatore, with a cast including Sharon Sweet, Dolora Zajick, Lando Bartolini and Alain Fondary. The conductor is Thomas Fulton. (90) 518383

PESARO
Rossini's birthplace lays on a suitably generous spread for this year's bicentenary. Tonight's performance at the Teatro Sperimentale is La scala di seta (repeated on Wed, Fri and Sun). Il barbiere di Siviglia can be seen at the Teatro Rossini on Wed and Sat, and Semiramide (conducted by Alberto Zedda) at the Palafestival tomorrow, Fri and next Mon.

Riccardo Chailly conducts a staging by Hugo de Ana of Le Cantata per i Borboni on Thurs and Sat at the Palafestival, with a cast led by Mariella Devia. Carlo Rizzi conducts a choral concert at the Palafestival on Sun.

Claudio Abbado returns to conduct *Il viaggio a Reims with an all-star cast on Aug 16 and* 18. (721) 33184

SALZBURG
Despite his much-publicised withdrawal from the new production of La clemenza di Tito, Riccardo Muti is going ahead with his Vienna Philharmonic concert in the Grosses Festspielhaus tonight as planned.

The Mozart production tomorrow and Sun in the Kleines Festspielhaus will now be conducted by Gustav Kuhn, with a cast led by Ben Heppner. The staging is by Ursel and Karl-Ernst Herrmann.

The opera programme also features From the House of the Dead conducted by Abbado (tomorrow and next Mon) and Die Frau ohne Schatten conducted by Solti (Wed, Sat and next Tues).

Esa-Pekka Salonen conducts the Los Angeles Philharmonic in a Berg and Mahler on Thurs, followed by two Vienna Philharmonic concerts with Abbado on Fri evening and Sun morning, featuring Berlioz's Te Deum.

Fri also finds Dietrich Fischer-Dieskau singing Die schöne Müllerin (with a Schumann recital to follow next Mon) and Rudolf Buchbinder giving a piano recital.

The main drama programme winds up today, tomorrow and Wed with performances of Peter Stein's production of Shakespeare's Julius Caesar and Andrzej Wajda's production of Stanislaw Wyspianski's The Wedding.

Looking further ahead, Peter Sellars's staging of Messiaen's Saint François d'Assise, with Jose van Dam, opens on Aug 17. Luc Bondy's production of Salome, conducted by Christoph von Dohanyi, opens on Aug 20. Ends Aug 30. (662) 846682

SCHLESWIG HOLSTEIN
This week's programme is dominated by three Lieder recitals: by Peter Schreier at the St Michaelis Kirche in Hamburg tomorrow, by Hermann Prey at Amrum on Wed and by Jessye Norman at Kiel on Fri.

Okko Kamu conducts the Stockholm Sinfonietta at Lübeck on Fri (with trumpet soloist Hakan Hardenberger) and at Rellingen on Sun.

Edward Heath conducts the Leipzig Radio Symphony Orchestra at Westerland on Sat.

Next week's visitors include Anne Sophie Mutter, the Cleveland Quartet and the Norwegian Chamber Orchestra with Iona Brown. Ends Aug 23. (431) 567080

TANGLEWOOD
Tanglewood on Parade, an afternoon of performances by Tanglewood students and alumni, takes place on Wed. The day's activities culminate with a gala concert at 20.30 featuring the Boston Symphony and Tanglewood Music Center Orchestras, with Seiji Ozawa, Leon Fleisher, Yo Yo Ma and *other artists*.

The evening ends with the 1812 Overture followed by a fireworks display.

Admission to the afternoon's events is included with purchase of a ticket to the evening concert. Thurs: Grant Llewellyn conducts Rossini's Petite Messe Solennelle. Fri and Sun: Charles Dutoit conducts works by Bizet, Franck, Debussy and Ravel. Sat: Ozawa conducts extracts from Il barbiere di Siviglia, with Thomas Hampson and Kathleen Battle.

Next week's soloists include James Galway and Frederica von Stade. Ends Sep 1. Ticketmaster Boston (617) 931 2000 New York City (212) 307 7171

VERONA
This year's operas at the Arena are Don Carlo, Aida, La bohème and Nabucco. There are four performances this week, beginning on Thurs with Aida conducted by Nello Santi.

The first performance this season of Nabucco is on Fri, with Piero Cappuccilli in the title role and Linda Roark Strummer as Abigaille. Cecilia Gasdia is Mimi in La bohème on Sat, with Neil Shicoff as Rodolfo. Don Carlo can be seen on Sun.

From next Tues, there are daily performances till Aug 30, including a concert performance of Porgy and Bess on Aug 24 conducted by Lorin Maazel. (45) 590109

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
2130-2200 (Tues) Media Europa – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0830-0900 (Thurs) Media Europa
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1900-1930 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES
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Monday August 3 1992

The task for George Bush

PRESIDENT GEORGE Bush will have to run hard if he is to win a second presidential term on November 3. The national opinion polls give his Democratic party challenger, Governor Bill Clinton, an overwhelming lead. More to the point, local polls suggest that, had the contest taken place last week, Mr Bush would have lost California and New York, not to mention smaller but nevertheless important "swing" states like North Carolina, Missouri, and Washington. The magnitude of Mr Clinton's popular advantage has led some Republicans to speculate aloud that perhaps the president should stand down in favour of someone likely to win. US conservatives, still unhappy about Mr Bush's failure to stick to the letter of President Reagan's agenda, have taken to musing that a Clinton presidency might be preferable to another four years of Mr Bush.

There is still time for the president to turn this adverse current round. He started from well behind Governor Michael Dukakis in 1988 and ended up convincingly ahead. A large part of Mr Clinton's lead is the product of the "bounce" in popularity that a candidate usually enjoys in the weeks following his party's convention. The effect is more marked this year than in most recent presidential elections, but that may be due to the switch to the Democratic candidate of support formerly pledged to Mr Ross Perot. The Republican convention which ends on August 20 should in the normal course of events produce bounce in favour of Mr Bush. That could still be of sufficient magnitude to ensure victory – if he manages to convey the impression that he has a serious programme of action to put forward.

Aimless policy

The question is, "does he?" His fall in popularity is mainly explained by the prolonged recession and Mr Bush's seemingly aimless policy of *laissez-faire*. The president, hamstrung by a Democratic Congress, has in consequence appeared to be immobilised. He has not put forward any positive domestic programme for action, either to reduce the budget deficit or to promote the return to a better rate of growth. America's poorly-performing educational system, its lack of housing for the poor, and its costly but inefficient welfare provisions are all running sores to which Mr Bush has paid little visible attention.

This is not to say that Mr Clinton's proposals, which involve high spending and a certain lack of clarity about how they are to be financed, are without flaw. The Democratic platform has been subjected to insufficient national scrutiny.

For the moment, however, that *is a secondary matter.* What is being questioned by Americans is the president's purpose in seeking a second term. Mr Bush has so little to say about his country's economic and social malaise that he is starting to look like a man who may not deserve re-election. That allows his opponent to present himself as a man who will both propose and execute positive programmes, the right person if voters want change.

Quayle factor

It is conceivable that Mr James Baker, who was in strategic command of Mr Bush's campaign against Mr Dukakis, may rescue his old friend once more. The secretary of state is thought likely to return to the White House soon, either as controller of domestic policy, or, some surmise, as a replacement for Mr Dan Quayle as Mr Bush's running-mate. In 1988 Mr Baker guided Mr Bush through a wholly negative strategy. Mr Clinton and his running-mate, Mr Al Gore, can see that coming and prepare their defences.

What Mr Bush needs this time is something better – a set of serious domestic policies and a campaigning style that persuades his own people that he knows what has to be done and understands how to do it. This is a matter of moment well beyond the shores of the United States, since the Bush administration has until recently been remarkably adept at foreign policy.

If Mr Baker, who knows from personal experience how much the world at large has benefitted from American policies over the past four years, cannot enliven the president's domestic programme, he should ask himself about how best to provide the electorate with a proper choice in November.

British Gas takes the test

BRITISH GAS's decision to volunteer itself for scrutiny by the Monopolies and Mergers Commission is an indication of the company's profound frustration with the regulatory regime under which it operates. It guarantees that the company's senior management will spend much of the next nine months dealing with MMC inquiries and raises the possibility that the process will end with the government breaking up the utility. It is difficult to recall a precedent for such a high risk corporate gamble.

It is evident, however, that British Gas felt it had no real choice. Having been privatised in 1986 as a single, monopolistic entity, against much vociferous advice to the contrary, British Gas was bound either to ride roughshod over the interests of consumers or to face a shoot-out with its regulators. Since the powers of Ofgas, the main gas regulator, stop short of forcing the industry into the competitive structure the government should have sought in the first place, a good deal of friction was inevitable.

After a deceptively calm beginning, recent months have seen a series of squabbles, which no amount of pressure of British Gas's new chief executive, Mr Cedric Brown, has been able to resolve. In the latest conflict, over rates of return in the pipeline business, Ofgas has pressed a pricing plan unacceptable to the utility. Faced with an impasse, the MMC is available as a referee, but British Gas has decided that the commission should review the entire gas industry rather than confining itself to the matter immediately at hand.

Desirable step

This is a bold step, but a wholly desirable one. Although British Gas can be criticised for its shameless pursuit of a monopolistic preserve at the time of privatisation, it has since found itself buffeted between Ofgas, which regulates prices, and the Office of Fair Trading, which has intervened with far-reaching criticisms of British Gas's structure. It was an OFT report in October last year which proposed the creation of the pipeline and storage subsidiary. But it was with Ofgas that British Gas had to negotiate over pipeline tariffs. British Gas complains that this regulatory whipsaw has made medium- and long-term planning very difficult.

No doubt these problems have sometimes been made more vivid by the personalities of those involved. British Gas surveys the world, some think haughtily, from its Thames-side headquarters and has been known to consider Ofgas an irritating pipsqueak. Sir James McKinnon, Ofgas director general, has sometimes perhaps savoured the scrap as much as his strategic objectives. But it would be wrong to conclude that the system has broken down because it has been badly administered. It has broken down because its design was fundamentally flawed.

Privatisation successes

In conducting its inquiry, the MMC will want to acknowledge some successes of privatisation: more dynamic management, reduced costs, somewhat greater transparency and a reasonable deal for shareholders. British Gas claims to have cut the price of gas to domestic consumers by 19 per cent since privatisation, although this has been against a background of weak energy prices.

The MMC will also not want lightly to throw away the basis of price regulation in Britain, whereby companies receive an incentive to hold prices at an agreed level below inflation and so to be more efficient. But the commission will also need to explore thoroughly the central question of appropriate rates of return for different parts of the business given the varying degrees of competitive pressure. The MMC's findings here will be of great importance for all the utilities.

The MMC will also ask how much more competition can be brought into the gas industry, perhaps by breaking British Gas up into a series of regional companies, with a centrally owned pipeline company, perhaps by encouraging British Gas's competitors in the industrial gas market to enter the domestic business in force. It will also need to reconsider the industry's regulatory structure.

If the outcome is to break up British Gas, Mr Brown should not necessarily conclude that he lost the gamble. After all, one of his Thames-side neighbours, ICI, has just proposed precisely that.

BAe is preparing a radical restructuring, write **Paul Betts** and **Tony Jackson**

A flight back to basics

Visitors driving in to central London from Heathrow airport used to be greeted by a stylish billboard advertising British Aerospace executive jets. This summer, it has been replaced by a poster plugging an American fast-food chain.

It is a small but telling reflection of what is happening in Britain's biggest manufacturing company and exporter of manufactured goods.

From the City's point of view, BAe is in bad shape. In the past year its share price has fallen by about two-thirds, from 570p to 209p at last Friday's close. Its total market value is less than £800m ($1.5bn). At this rate, it is set to fall out of the FT-SE index of the UK's 100 biggest companies.

Late next month, with the company's interim results, the new chairman, Mr John Cahill, will reveal further drastic measures to restructure the company. His first move will involve the troubled regional aircraft business.

"We have been working fairly feverishly for the past six weeks on a solution," Mr Cahill says. "By September we will have one. That will be a new beginning for this company. It's been dragging baggage behind it for a number of years, and we're just starting to face up to it."

The company has been searching for international partners to acquire a stake in its regional jet and turbo-propeller commuter aircraft activities. If these efforts fail, the regional aircraft business is likely to be scrapped.

But that is likely to be only the first stage of a broader programme to refocus the company around its military aircraft operations and its 20 per cent stake in the European Airbus consortium.

Central to the group's problems is its chronic inability to generate cash. Last year it shocked the City with a surprise £432m rights issue. Even after that cash injection, its net debt was nearly £400m higher by the end of the year.

It is a problem which Mr Cahill should be qualified to address. The company in which he spent most of his working life, the conglomerate BTR, is renowned for its tight financial controls.

"We have to get the company cash-positive," he says. "Otherwise it eats itself alive. My view is that there is around £250m stuck in the system here. We've got to drive it out. Then we can close the warehouses and turn the lights out. And we need to keep de-manning."

The roots of the problem, he concedes, lie in the company's history. "The company for years was a cash cow. It was a defence business, with research and development funded by Her Majesty's Government and by payments for work in progress.

"It has probably never been managed for profit or for cash. All that used to take care of itself. That's now changing. In the 1990s, we're not going to get high inflation or explosive volume growth. So you've got to get the costs down. If you look across the road to BTR, that's exactly what we did."

In strategic terms, the process of re-shaping the company could take three or four years. It may also have far-reaching implications for the group's other activities, including the Rover car operations, its property business and perhaps even some of its defence interests.

Mr Cahill's room for manoeuvre is hampered by depressed demand across the group's businesses. "That is the other thing that is bugging the business, besides regional aircraft," he says. But he cannot afford to wait too long before wielding the scalpel.

"Radical surgery is required," says Mr Keith Hodgkinson, aerospace analyst at Shearson Lehman, the US investment bank. "It's the old story: there can be no gain without pain and the incoming chairman must attempt to get everything right in the first year. He can't have a second crack at it."

A revealing insight into the history of the group's problems is contained in a letter in the latest edition of the Royal Aeronautical Society journal from Professor Ivan Yates, a former head of BAe's aircraft group and the group's deputy chief executive responsible for engineering until 1990.

According to Prof Yates, things started to go wrong in the late 1980s after government aid was cut to the point at which it no longer covered the financial risk of the company's commercial aircraft programmes. BAe's response was to diversify into armaments, construction, motor manufacture and property.

"This strategy underpinned the acquisition of Royal Ordnance [the armaments company, acquired from the government for £190m in 1987], Ballast Nedam [the Dutch construction concern, also bought in 1987], Rover [bought from the government in 1988], and, by extreme extrapolation, the property company Arlington [bought for £278m in 1989]," Prof Yates explains.

But, he claims that strategy had two significant drawbacks. "First, it used up cash which would otherwise have been invested in the aerospace business ... Second, it exposed the company, as is now clearly demonstrated, to increased risk in other markets such as the highly volatile consumer and property sectors."

BAe's recovery strategy was set out in its rights-issue document last year. The group is to be focused round its four main businesses: defence, commercial aircraft, cars and property. Mr Cahill's challenge is to accelerate this strategy by selling off non core-activities and shedding loss makers.

This is likely to involve heavy write-offs. The City estimates that the company will write off about £750m with its interim figures. But the gloom should not be overdone. BAe has two big strengths – defence and Airbus.

● Defence. Although the defence market is contracting, this remains the company's largest profit centre. "BAe is one of the world's best manufacturers of military aircraft and even without the European Fighter Aircraft this business will continue to make decent profits over the next four to five years," says Mr Hodgkinson of Shearson Lehman. BAe is the world's third-largest defence contractor and the biggest in Europe.

The defence activities, which made £550m in operating profits last year, are also underpinned by the company's long-term relationship with Saudi Arabia, which will continue to provide BAe with some £2bn in annual revenues over the rest of the decade. However, BAe's overall military business is likely to shrink as a result of defence spending cuts. The company would clearly suffer a huge blow if the European Fighter Aircraft were cancelled, but the new fighter would not have any significant impact on profits and revenues until 1995-96.

While building on its military aircraft and systems strengths, BAe may again seek a joint venture for its missiles business after failing with Thomson-CSF of France two years ago. In the long run, the Royal Ordnance armaments group does not appear to constitute a core activity. In France, the aerospace and armaments industries are separated, and some analysts believe this would also make sense for the UK.

● Airbus. Although in the past BAe has been anxious about its participation in the European Airbus programme, it now regards its 20 per cent stake in the consortium as its second big asset. It would like to increase its stake, but it is difficult to see the two lead partners, Aérospatiale of France and Deutsche Aerospace, giving ground.

Airbus has firmly established itself as Boeing's main rival in the market for large airliners. Its extensive family of aircraft, built up over the last 20 years, has given it a 26 per cent share of the world market. That could grow to around 30 per cent. Last month Airbus made a spectacular inroad into Boeing's domestic market by winning a $5bn order from United Airlines, a traditional Boeing customer.

BAe now clearly intends to concentrate its efforts in the commercial aircraft business on Airbus and its wing-manufacturing activities for the European consortium. Last year, BAe picked up about $45m of the consortium's $260m operating surplus.

BAe has also decided to sell its profitable corporate jet business because it no longer sees this as a core activity. If it had decided to remain in the corporate jet market, it would have been forced to invest heavily in the development of new products at a time when it is seeking to keep a tight rein on capital expenditures. The sale will also help reduce company debt.

The two other legs of the group are Rover and property. Although the company does not appear to be in any rush to make any radical moves, both are unlikely to remain with BAe in the longer term.

● Rover. The vehicle business is expected to report another loss this year, with few encouraging signs of market recovery. Rover is continuing to cost BAe significant sums in the modernisation of new plant and the introduction of new models.

BAe is still bound by a five-year standstill agreement with the government until August next year, when it could sell Rover if it chose to. But the company is concentrating on making Rover as lean and competitive as any company in the world market. Once this process is complete, and Rover starts achieving good profits, BAe is expected to look for a buyer. This could be either a bigger European manufacturer, or possibly Honda of Japan, which already owns a 20 per cent stake in Rover's manufacturing operations.

As BAe sees it, Rover's problem is one of volume. It builds about 400,000 vehicles a year, many in car market segments which require volumes of 1m to 2m a year if development costs are to be properly amortised. "Whatever ultimately happens, Rover is unlikely to remain in BAe's portfolio," one City analyst forecasts.

● Property. BAe's hopes that property development profits would become a big cash generator for the group have disintegrated. In the depressed state of the market, the company is marking time, hoping that the market will eventually recover and its property assets become more liquid.

Mr Cahill's task of restoring BAe's sense of direction is by no means impossible. Others have succeeded. In the US, Lockheed and General Dynamics, two of the biggest defence contractors, appear to be well on the way to achieving successful restructurings focused on their core defence businesses.

But the new chairman cannot afford any error. "This is probably the last chance for BAe, just as Mr Cahill won't be given a second chance if he gets things wrong now," says one executive of another large UK aerospace group.

The problem is that building aircraft has always been a seductive process and the industry has traditionally suffered from over-optimism. Mr Cahill can clearly continue to hope for the best, but in the present circumstances, he must also expect the worst. The trouble with BAe has been that it has always hoped for the best and expected it.

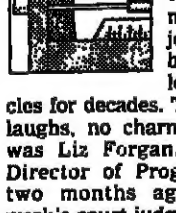
British Aerospace: a pressing case for reform

Source: Datastream

	Sales 1991 (£m) Including intra-group	Excluding intra-group	Profit (loss) before tax & exceptional items (£m) 1991	1990
Defence	4,268	4,836	353	504
Commercial aircraft	1,667	1,651	(56)	28
Motor vehicles	3,744	3,744	(83)	103
Property development	291	287	(34)	(18)
Construction	783	592	[illegible]	22
Other business & headquarters	363	252	(89)	(53)
	11,112	10,562	338	586
Less: Intra-group	(550)			
Unallocated interest & borrowing			(184)	(186)
	10,562	10,562	154	400

PERSONAL VIEW

Fudge in fourth estate



"Television programmes about Northern Ireland...viewers turn off at the very mention of the subject. The story has been going hopelessly round in circles for decades. There is no sex, no laughs, no charm, no hope." That was Liz Forgan, Channel Four's Director of Programmes, writing two months ago ahead of last week's court judgement which fined the Channel and programme maker Box Productions £75,000 for contempt.

She may nonetheless feel that the money was well spent. For the government, in resorting to the draconian provisions of the Prevention of Terrorism Act (PTA) to force journalists to reveal their sources for the first time since the legislation was enacted in 1974, rescued the little noticed Dispatches programme 'The Committee' from obscurity.

When it was screened last October it caused hardly a ripple. But now millions know of allegations of systematic collusion between the locally recruited security forces and loyalist terrorists in a campaign of sectarian murder. The unprecedented legal battle has also backfired on the government in another way. Despite the prospect of prosecutions under Section 18 of the PTA, which carry a maximum five year jail sentence, the Royal Ulster Constabulary has failed to extract the name of one of the programme's sources, known as 'Source A'. This individual provided first-hand testimony of how a secret committee, *composed of RUC officers, loyalist* terrorists and prominent businessmen, sanctioned and organised the execution of Republican supporters and, in one notorious case, an innocent catholic youth.

The Channel Four board was unanimous in its resolve to disclose these matters in the public interest. Its confidence rested on the extensive research and close supervision of the project exercised by the Channel's most senior executives at every stage of production. From the outset those involved were aware that the undertakings given to the programme's sources could bring them into conflict with the PTA. They assumed, wrongly, that in handing over virtually all their research material to both the RUC and Scotland Yard they would have satisfied the demands of the law.

The dossier given to the RUC after transmission contained information on 19 members of the committee including the chairman – a member of the RUC reserve who had met the programme's main researcher, shown him his police medal, brandished a revolver and, as the court was to hear, had boasted, "makes you wonder who runs this country, doesn't it".

Shortly after the broadcast the RUC intimated to sympathetic journalists that the programme had been hoaxed. There had been no terrorist conspiracy. Yet the RUC seemed unembarrassed by its own use of emergency legislation in the PTA to unmask the supposed hoaxer. After seven months of legal argument, held in secret, the case finally surfaced amid a glare of publicity before Lord Justice Woolf in the High Court.

The core of the case was the conflict between two different public interests: exposure of a scandal, as against full compliance with the terms of a valid legal order to produce materials deemed relevant to a terrorist investigation – even if *such compliance might prove fatal* for Source A. This clash was inevitable because Parliament, in passing the PTA, did not envisage officers of a British police force promoting terrorism instead of preventing it, which was precisely what the Channel Four programme claimed.

At the start of the proceedings, Lord Williams QC, counsel for Channel Four and Box, made the position clear. "We will bow the head, but will not bend the knee," he said. For the Crown, Mr Andrew Collins called for Channel Four to be taken off the air if necessary to force compliance.

Lord Justice Woolf defused this confrontation with a characteristically British fudge. He dismissed sequestration but rapped Channel Four on the knuckles with a fine equal to the cost of a mere 15 minutes of advertising time. And he failed to resolve the clash between the two public interests, by proposing, wholly unrealistically, that Channel Four and Box should have given only a qualified undertaking to Source A, saying that they would not name him unless asked to do so by a court. Source A, who took weeks of persuasion to appear in heavily disguised silhouette, would naturally have declined the offer.

This weekend the RUC once again sought to discredit the programme by coming up with a new hoaxer, witness X. The most striking feature in this is the identity of the solicitor who witnessed his statement. Of all the solicitors in Northern Ireland who could have acted for Mr X the RUC chose one of the 19 people identified by Channel Four and Box as members of the Committee. Interestingly, witness X did not claim to have met any member of the production team.

If Sir Hugh Annesley, the chief constable, has nothing to hide, as he continues to insist, it is hard to see why he would not welcome the *public inquiry for which Channel* Four has called.

John Plender

The author, a Financial Times leader and feature writer, is a director of Box Productions.

A strike at the heart of the democratic struggle

South Africa is bracing itself for an unprecedented week of industrial action and demonstrations, writes **Michael Holman**

South Africa's struggle for democracy this week enters its most perilous stage since Mr Nelson Mandela's release two and a half years ago.

Ravaged by political violence, its leaders at loggerheads, and the economy deep in recession, the country is bracing itself for a 48-hour general strike that begins today.

It marks the start of an unprecedented week of industrial action, partly a protest against the slaughter that the government seems either unable or unwilling to halt, partly an effort to jolt President FW de Klerk into an acceptance of majority rule.

Mr Mandela, the African National Congress (ANC) president, however, may find himself hoist by his own petard. The week ahead could prove to be less a challenge to Mr de Klerk's authority than a test of his own leadership.

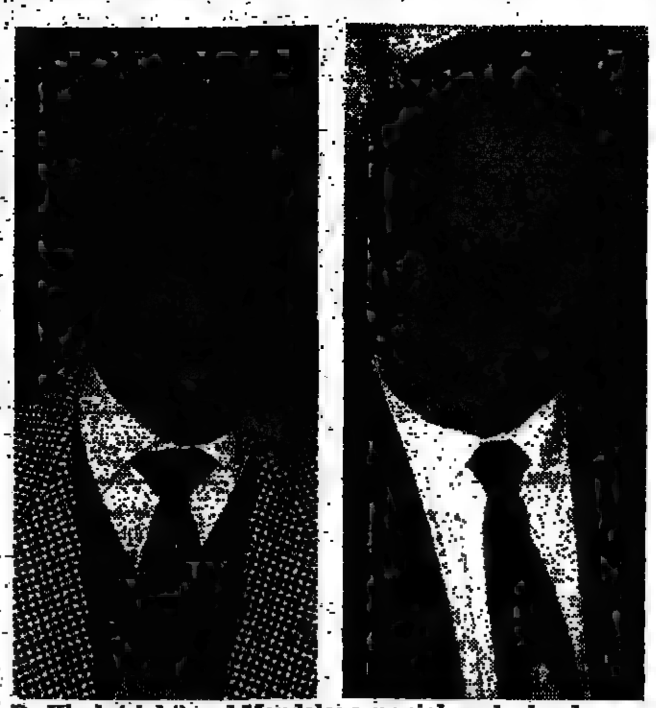
Within the ranks of the ANC and its main allies – the South African Communist Party and the Congress of South African Trade Unions (Cosatu) – are those who question a strategy that may have been flawed from the start and has since been overtaken by one development in particular: the emerging role in South Africa's peace process of the United Nations, ten of whose officials arrived yesterday to observe this week's events.

On the home front, government measures have helped prepare the ground for a resumption of constitutional negotiations, called off on June 23 by the ANC in the wake of the massacre of 42 residents of Boipatong township.

The government has responded to most of the ANC conditions for a resumption of talks. It has agreed to disband three controversial security force units, promised to reform migrant worker hostels which were implicated in much of the violence, and agreed to tougher measures against carrying weapons in public, including so-called traditional weapons carried by Zulu supporters of Chief Mangosuthu Buthelezi's Inkatha Freedom Party (IFP).

"Mr de Klerk must put promises into practice", comments one ANC official. But he concedes that Mr de Klerk has taken significant steps towards fulfilling an important condition: the demand for an international inquiry into the massacre. Foreign experts have been assisting the Goldstone commission, a standing judicial investigation ofpolitical violence.

But the most important development of all came at the Security Council last month, which met to debate the South



De Klerk (right) and Mandela; a crucial week ahead

African crisis.

Its decision to appoint Mr Cyrus Vance, former US secretary of state, as special UN envoy to South Africa marked the start of the international body's direct involvement in the search for a settlement.

When Mr Vance reports this week, he will almost certainly suggest that the UN send an observer team, whose members would be attached to existing local bodies.

But he has already made his mark. While in South Africa on a ten-day visit he played the role of broker, helping to arrange last week's meeting between Mr Pik Botha, the foreign minister, and Mr Thabo Mbeki, his ANC shadow.

The official purpose of the meeting was to discuss the release of political prisoners. But few observers doubt that more was discussed in a meeting that effectively marked the resumption of bilateral talks.

Whether international intervention can save South Africans from themselves is a moot point. But Mr Vance apart, outsiders are already making their mark. For example, reports by the experts invited to join the Goldstone commission have produced indictments of the South African Police.

What alarms members of Mr Vance's team, however, is the prospect of what ANC and labour leaders have termed "rolling mass action", with all the risks of violent confrontation the policy entails.

The small number of UN observers envisaged – "tens rather than scores and certainly not three figures", says one official – will already be hard pressed to monitor existing levels of conflict.

Thus UN officials will be eager to avoid extended industrial unrest in South Africa.

This all adds up to a predicament for Mr Mandela in which he has little to gain and much to lose.

If the week of action wins widespread support Mr Mandela will emerge with his authority intact. But it will hardly be enhanced. What, it can be asked, will have been achieved?

It all adds up to a predicament for Mr Mandela in which he has little to gain and much to lose

Anything less than a big turnout, however, will be a severe blow. With its military wing all but inconsequential, trade sanctions a lost cause, and the shortcomings of its industrial muscle demonstrated, the ANC will return to negotiations with its limitations exposed.

As Mr Benny Alexander, secretary general of the radical Pan Africanist Congress says: "If they (the ANC) fail to come up with successful mass actions Mr de Klerk will become more arrogant."

Moreover, the divisions in black politics will have been exacerbated.

From Chief Buthelezi, strongly opposed to the mass action campaign, comes a warning: "If negotiations cannot get off the ground then violence will escalate. We might be pushed into a situation in which violence will have to run its course before we can again begin negotiations."

Not only have relations between the ANC and Inkatha sunk to new and dangerous depths. The Pan Africanist Congress, which used the funeral of the Boipatong victims to resurrect the Patriotic Front alliance of anti-government forces, is opposing today's strike.

Furthermore, the strike has revived the quarrel of the classrooms: with some groups arguing that students should boycott their schools and others (including the ANC) urging pupils to attend classes.

The greatest burden Mr Mandela carries is the danger that events this week could set in train a process of radical change, but in a way that he does not intend, and which he could find hard to control.

The threat of violence will be ever present. Potential flashpoints include; hostels housing supporters of Inkatha who are determined to go to work; factories where strikers confront the security forces; or wherever the extreme right attempts to provoke conflict.

But de Klerk has his own burden of responsibility. The most fundamental issue of all – who holds power in post-apartheid South Africa – remains intractable.And nothing Mr de Klerk has said since talks broke down suggests he is prepared to accept Mr Mandela's demand for a majority rule constitution.

As positions harden and enmities deepen, the warning of Rhodesia (now Zimbabwe) seems increasingly relevant: black nationalist leaders were released (1974), a constitutional conference failed (Geneva 1976) and 30,000 people were to die before talks eventually succeeded in December 1979.

Certainly one prominent South African politician has said there is a lesson to be drawn.

"I think great mistakes were made in Rhodesia. When the opportunity was there for real, constructive negotiation it was not grasped."

"Insofar as things went wrong, they went wrong because they (white Rhodesians) waited too long before engaging in fundamental negotiation and dialogue".

These words are from President FW de Klerk, in an interview shortly before Nelson Mandela's release. They seem all the more pertinent this week.

OBSERVER

Don't let it all hang out

■ Would readers care to help in stopping what, in Observer's experience at least, is a growing nuisance besides a pernicious one. The root cause is the numerous traders who have joined publishers of free newspapers in distributing unsolicited bumf from house to house.

It is not so bad when the stuff is pushed right through the letter boxes because, then, it is easily binned along with other junk mail. The trouble is that the bumf-bringers often stop short at sticking it only half through. Hence when the householders are away, the other half remains outside the door as a signal to any casing criminal that the place is unoccupied.

So if that leads to burglary, how do the victims stand? Not at all well, thinks Observer's legal colleague.

The odd thing, he says, is that if the inviting signal was the householders' fault – for going away without cancelling the newspapers they pay for – their insurers might well refuse to pay up. But when the householders have been set up by the fault of someone else, however clearly identified, it is unlikely that the culprit could be successfully sued.

At the very least the householders would need to have written beforehand to the producer of the particular piece of offending paper, requesting that such deliveries should cease. If the tell-tale bumf came from anybody who hadn't been so forewarned, hard luck.

It is a position which, given the encouragement to crime, seems antisocial as well as unjust. It also seems easily rectifiable. All it needs is a bit of legislation putting the onus on the bumf's originators to ensure that it doesn't remain on view from the outside – although it might be time to ask by what right people go around invading others' property with objects they have not said they want.

If any readers feel the same way, perhaps they'd like to write in. Then, given enough support, we'll see what can be done to change things.

Close shave

■ A top official appearing in court with a bandaged hand might not set tongues a-wagging in most countries. But it did in Russia when Boris Yeltsin's special representative Sergei Shakhrai arrived wearing a bandage at the hearings on the legality of the former Soviet Communist party.

Suspicions of a sinister attempt to nobble him were increased by news that the injury was one he'd been lucky to escape with. He suffered it when his speeding car hit a tree after being forced off the road by another, which then raced off.

But it turns out that his assailants were not so much political as paralytic. Apparently Shakhrai's limousine had earlier overtaken the other car with an arrogance that nettled its three drunken occupants – the chief of a Moscow hairdressing salon who owned it, and two companions. So they caught up and made a ramming attack.

As its success seemed worthy of celebration, they parked a mile away and took to the bottle again. The car's owner then staggered back alone to the scene of the crash, where he overheard bystanders saying who had been hurt. That sent him back to his friends and a third go at the bottle, during which they

resolved to conceal their guilt.

Their efforts, however, were in vain. The number of the car had been noted when it made the attack, and the barber-shop manager was put under locks.

Odd characters

■ Poor literacy is a problem the world over. But China, where the authorities have just also ordered a crackdown on basics such as spelling, might seem to have special difficulties.

In English-speaking nations, for instance, the problem usually results in nothing worse than puzzling new words (an "enjuiced" pregnancy, for example) which, with a bit of thought, can be decoded from the context. The equivalent in China, however, is the distortion not just of words but the individual characters.

Fortunately, Observer's checks reveal that literate Chinese can still work out the intended meaning, even if – as one translator said – "it's sometimes like looking at a bit of finished knitting and divining what should have been in the pattern".

As a by-product of the checks, too, there's news for the innumerable public speakers on management who're forevertelling their audiences that the Chinese word for "crisis" is formed by linking together the characters for "danger" and for "opportunity". It is true.

Salty

■ Whether or not Britain's economic tide is still ebbing, management theorists are in full flood with fresh slogans – sorry, "metaphors" – aimed at inspiring company chiefs to follow their ideas.

In particular, perhaps because top executives are often sailing buffs, the metaphor-mongers are going overboard on seafaring imagery. An example is "permanent white water", used to represent the ceaseless change now facing companies.

The nautical natter has clearly impressed the esteemed Tavistock Institute of Human Relations. "Such metaphors," says its latest annual review, "conjure up visions of organisations emerging from tedious and dutiful voyages down well-charted and sluggish waterways to face a tempest-lashed open sea."

"Aye, 'appen," said the FT's resident sceptic on management theories when he was shown the review's prose. But there was one thing, he added, that calm or tempestuous, the climate would never change. "Whatever the water, it's shark-infested."

Stop off

■ Anticipating today's cartoon, a reader has advised that a stockbroker he knows of once sent a letter to a house called "Dunroamin". It was returned marked "Gone away".

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

What ICI's accounting really says

From Prof D R Myddelton.

Sir, Proposals for radical restructuring of ICI are certainly overdue ("ICI sets out radical plan to split its operations", July 31). After proper allowance for inflation, the results over the last 20 or 30 years have been truly awful.

In real terms the dividend is lower than it was in 1979, *before* the famous nominal cut in the 1980 dividend. Indeed, in real terms ICI's dividend per share is lower than it was as long ago as 1959.

Even more shocking is that ICI's historical cost accounts significantly understate depreciation of fixed assets. Using constant purchasing power accounting to allow for the effects of inflation, I reckon ICI has actually made a real loss in ten of the last 15 years.

And according to my calculations, real CPP earnings have *not* fully covered ICI's dividend in any single one of the past 17 years.

This is an indictment of ICI's performance. It is, however, also a sad commentary on the state of UK accounting.

D R Myddelton,
professor of finance and accounting,
Cranfield School of Management,
Cranfield, Bedford

The legacy of Third World debt will not easily go away

From Mr Ed Mayo.

Sir, The end of the Third World debt crisis is more tricky to predict than the beginning of the UK economic recovery. Bank of England governor, Mr Robin Leigh-Pemberton, said in 1982 he thought the international debt crisis "is over" ("Debt crisis at end, says new Bank head", December 31, 1982) and every year since has seen similar claims.

I will not join you ("Latin American debt crisis", July 30) in proclaiming its end on the tenth anniversary of its start, not least because of its concentration on just a few countries and the fragility of financial flows back into Latin America. The region is still deeply in debt and the legacy of coping with it in terms of poverty and a degraded natural resource base will not easily go away.

Ed Mayo,
chair,
UK Third World Debt Network,
New Economics Foundation,
88-94 Wentworth Street,
London E1 7SA

Care for customers

From Mr Roger Burrell.

Sir, The answer to poor customer service reported in the National Consumer Council's report, "Consumer Concerns 1992" ("Stores receive customer praise", July 30), is to invest 50 per cent of your training budget on customer care.

Surprise and delight your customers. The result of our investment is more satisfied customers and a balance sheet that is the envy of our competitors.

Roger Burrell,
managing director,
ICL Customer Service,
Cain Road,
Bracknell, Berkshire

Team briefings: rarely informative and pandering to autocratic style

From Mr Keith Flett.

Sir, Yvonne Bennion (*Letters*, July 30) may well be right in stating that the phrase "team briefing" has become part of the workplace vocabulary. Since other equally appealing phrases such as "project manager" and "early release" have also made their way into the top ten of most used workplace terms this hardly proves a great deal, however.

Team briefings may well be a useful way of informing staff of developments but in my experience they are rarely as brief, or as informative, as one would like them to be.

Keith Flett,
38 Mitchley road,
Tottenham, London N17 9HG

From Mr Andrew Dyke.

Sir, I was surprised to see Yvonne Bennion defending the Industrial Society's outmoded team briefing drill. Team briefing has failed as a management tool because it is a one-way channel of communication – top downwards. It offers no facility whatever for ideas and information about the performance of the business to flow from the workforce back up to senior management.

The Industrial Society used – perhaps it still does – to promote team briefing by saying it was a technique modelled on the way the Roman army briefed troops before a battle. Doing business in Britain today may feel like fighting in a battlefield, but all the evidence is that successful companies are the ones tha harness the goodwill and enthusiasm of their people to the future growth and vitality of their business. Management tools that simply pander to the autocratic style of management that is all too prevalent in British companies merely contribute to the continuing failure of those companies to climb out of the recession and hide the ineptitude of chief executive officers who, unfortunately, lack leadership skills required of Roman generals.

Andrew Dyke,
Andrew Dyke & Associates,
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London N21 3NX

Significance of BMW plant in US

From Mr Geoffrey Mazullo.

Sir, The article, "Union hits at BMW plans for US plant" (July 29), fails to place the proper emphasis on the significance of IG Metall's opposition to a BMW non-union plant in South Carolina.

The entity which the author refers to as BMW's "oversight council" (a direct translation from the German word "Aufsichtsrat") is in fact BMW's supervisory board.

The supervisory board plays a significant role in the German corporate governance system. German companies are governed by a two-tiered board structure composed of a management board and a supervisory board.

As the title implies, the supervisory board is responsible for the supervision or oversight of the management board, which in is responsible for the daily management of the company. Approval of the supervisory board is required for a number of corporate actions, and the supervisory board influences corporate policy.

The composition of the supervisory board is determined by German Securities Law and German Co-determination Law, the latter of which prescribes employee representation on the supervisory board. BMW's 20-member supervisory board consists of ten shareholder representatives and ten employee representatives.

Mr Klaus Zwickel, second chairman of the board of management of IG Metall, is an employee representative on BMW's supervisory board. As such, he advocates the union's labour relation policies, and therefore is pressuring BMW to employ union workers at its South Carolina plant.

BMW's decision to open a non-unionised plant in the US is a major event in German industrial relations. It will be interesting to follow IG Metall's efforts to secure union representation at the South Carolina plant, both through Mr Zwickel's impact as a member of BMW's supervisory board and through co-operation with US unions.

Geoffrey Mazullo,
analyst,
Institutional Shareholder Services,
3333 K Street NW,
Suite 230,
Washington DC 20007, US

A lot expected of shareholders

From Mr David Craine.

Sir, So the Confederation of British Industry (July 30) wants to remove what little teeth to enforce corporate governance the Cadbury Committee is proposing, and seeks to place responsibility for the enormous task of transforming company culture in this country solely on the shoulders of shareholders. Yet under current legislation shareholders have no means even of influencing the agenda of company annual general meetings, let alone effecting actual change.

Large shareholders beware, for the CBI is expecting a lot. The task to be undertaken must not be underestimated. Reports indicate that over half of the top 100 companies fail to meet the Cadbury Committee's standards. The closed world of British business will struggle hard to resist scrutiny. Until it opens up, criminal and unethical activity will flourish. Good business practice will be the victim and with it will fall Britain's competitiveness and international respect.

David Craine,
68, Charlton Road,
London NW10 4BA

No conflict with no profit

From Mr Malcolm Hurlston.

Sir, There need be no conflict between privatisation (of Companies House or anything else) and the requirement in the First Companies Directive that information should be made available at cost.

Mr Fleming (Letters, July 29) might like to hear that Registry Trust was set up as a non-profit company in 1985 and has now operated the registry of county court judgments for the Lord Chancellor's department for six years with uncontested success, playing an important part in the control of indebtedness. For most customers and most of the time, higher efficiency has been delivered at a lower price.

Malcolm Hurlston,
Registry Trust,
173-175 Cleveland Street,
London W1P 5PE

Devaluation, a common currency and the answer to Britain's current account deficit

From Mr Keith Tunstall.

Sir, Walter Ellis's fascinating analysis (Personal View, July 29) leaves one ultimately stranded. What is to be done?

The message seems to be that we should not be borrowing abroad to invest at home. The demand for foreign borrowings to invest is surely not the problem it was. But how much of current borrowing is forced by the need to service previous borrowings? And how far is the government now having to borrow to finance the public sector borrowing requirement and so keeping up the demand for foreign capital?

Lower interest rates would discourage foreign lenders. And as long as we keep interest rates higher than the rate of inflation then there is a good chance we can keep high domestic savings. But that brings us back full circle as to whether lower interest rates would force devaluation and raise inflation.

Clear, the problems of defending the pound and worrying about our current account deficit would disappear if we had a common European currency.

Keith Tunstall,
61 Hillcrest Court,
Baker Street,
Weybridge, Surrey KT13 8ADJ

From Dr John Wells.

Sir, Walter Eltis is quite wrong to argue that, since the current account deficit can be viewed macro-economically as a deficiency of domestic savings in relation to domestic investment then the microeconomic/structural explanations for our trade imbalance, rooted in the economy's lack of competitiveness, can be ignored.

The correct perspective is to appreciate the interactions between all three elements.

Thus, is it any wonder that savings are depressed in an economy whose relative economic performance has been weak for decades, culminating in a recession more severe than any other industrial country (bar Sweden and Finland)?

Poor long-run performance depresses the growth of real incomes relative to aspirations for increased consumption – making for a chronically low household savings propensity. Meanwhile, the adverse impact of recession on savings – squeezing corporate profits and pushing up government borrowing through lowered tax receipts and increased spending – are obvious.

Contrary to Eltis, devaluation can, in principle, impinge positively on the external balance via improvements in the savings-investment balance both through its direct effects on the latter and its indirect effects working through improved international competitiveness. Thus, the impact of devaluation is typically to bring about a redistribution of income in favour of profits, implying an increased propensity to save.

Of course, any such beneficial effects on the trade balance resulting from increased savings could be more than offset by a rise in investment – induced by a successful strategy – causing the external deficit to persist. But, this would be a healthy situation, as is the foreign borrowing of many vigorous young economies. Deficits of a mature, not to say senescent, industrial power in a deep slump are deeply pathological. And the UK trade balance worsens even as the slump persists and deepens!

John Wells,
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From Prof Brian Tew.

Sir, Walter Eltis states that "the devaluers appear oblivious to the possibility that a persistent trade deficit can be macroeconomic in origin, so that only reductions in net borrowing by the private sector or government can cure it", which implies that a cut in government expenditure would reduce the UK's trade deficit. Such is undoubtedly the case, but the causal route by which this "remedy" would work is unfortunately via an aggravation of the present recession. If government expenditure is cut, national income falls and goes on falling until income receivers are sufficiently impoverished for the consequential reduction in their saving plus tax payment plus purchases of imports to balance, in aggregate, the reduction in government expenditure.

It is in this way that Mr Eltis's equality between "an excess of investment over saving" and the "automatic" trade deficit will be achieved. Not surprisingly, devaluers do not favour the prescription, though their own, too, would undoubtedly have unwanted side effects.

Brian Tew,
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From Lord Ezra.

Sir, I would like to query two points made by Mr Walter Eltis. He states that "on balance when taken together there is net borrowing by the personal sector, companies and government." I do not believe that is a correct statement of the present situation. Assuming GDP to be approximately £580bn, private savings at the current level of 11.5 per cent would amount to £66bn whereas the corporate deficit is presently running at some £10bn and, assuming the PSBR to be at a level of, say, £35bn, the net effect of these three is still substantially on the positive side because of the very high level of private savings.

The risk I see in Mr Eltis' reasoning is that it lends support to the accepted view that the PSBR must be substantially cut back. If this included a cut back in productive investment in the public sector I would consider it quite wrong. The problem the UK faces is the progressive diminution in productive investment in the private and public sectors. These trends need to be reversed before confidence can come back and people encouraged to spend more.

Also, where Mr Eltis states that "as the economy recovers, companies will raise investment and personal savings will fall", I feel it should be put the other way round. So that the economy can recover, companies need to raise investment and personal savings need to fall. In other words, unless there is a recovery in productive investment it is difficult to see how confidence can return and private spending can be stimulated. What is needed is a stimulus to companies to invest more, which could be helped by an increase in investment allowances, and for public spending in productive sectors, such as construction, transport, training and research, to be at least maintained and if possible increased. If the government were to bring forward its major capital projects it would achieve the benefits of their being undertaken at very low cost, given the state of the construction industry, and could lead to corresponding investment in the private sector.

Derek Ezra,
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FINANCIAL TIMES
Monday August 3 1992

Jobs loss warning as S Africa prepares for general strike

By Michael Holman in Johannesburg

SOUTH AFRICA faces widespread disruption this morning as a 48-hour general strike starts a week of protest intended to force an early transition to majority rule.

Government and business leaders have warned that job losses are inevitable and billions of Rands will be lost, undermining an economy now in its third year of recession.

But both government and employers – a group of whom unsuccessfully attempted to avert the strike last month – have resorted to a generally low-key response, prepared to sit out a campaign which most of them believe will run out of steam after the first two days.

The main fear on all sides is that the protest could lead to clashes between rival black parties and confrontations between strikers and the security forces.

Speaking at a meeting in the eastern Transvaal town of Driefontein yesterday, Mr Nelson Mandela, the African National Congress president, said: "All we want to do is to pressurise the government into accepting an interim government and democratic elections."

"If the government shows signs of good faith, the ANC would return to Codesa," he said, referring to the negotiating forum where talks ended in deadlock last May.

A less conciliatory note was struck by Mr Ronnie Kasrils, a member of the South African Communist party and one of the main organisers of the week-long protest. The massacre in June of 42 residents of the Johannesburg township of Boipatong made people realise that President F.W. de Klerk "has blood on his hands", he said. Strong opposition to the strike, and the three days of rallies and sit-ins that are to follow, has come from Chief Mangosuthu Buthlezi, leader of the mainly Zulu Inkatha Freedom party.

Inkatha supporters have said that they will defy the strike,

A strike at the heart of the democratic struggle ..Page 11

organised by the ANC and its Communist party and trade union allies.

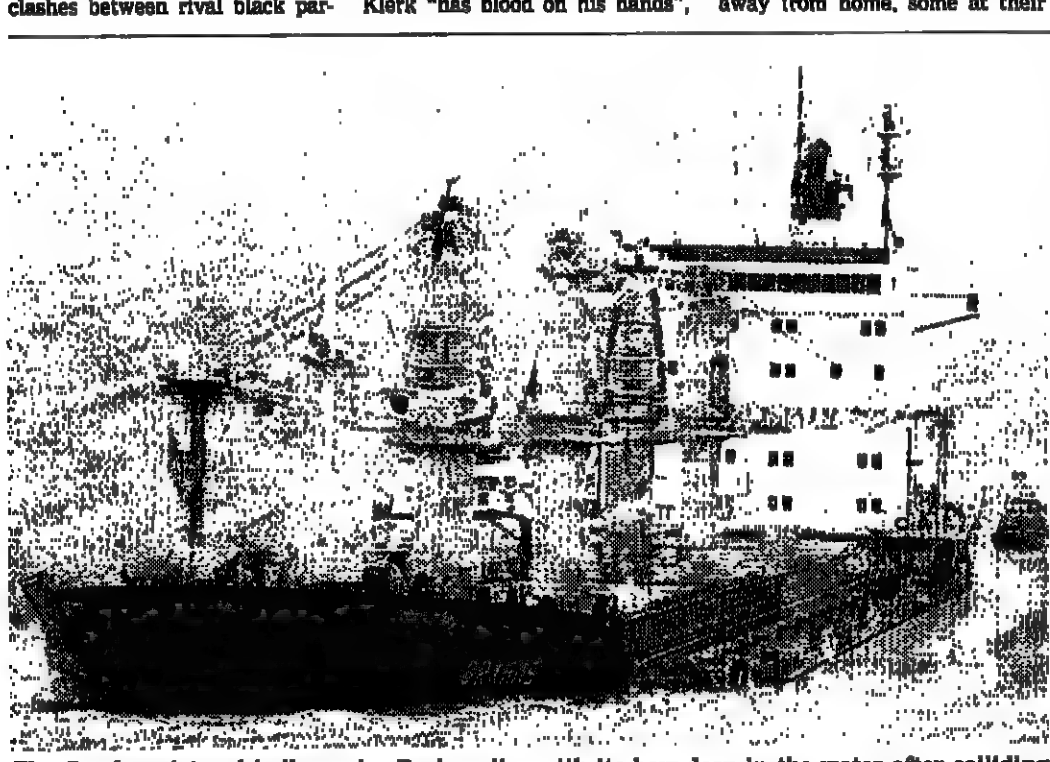
Also opposed to the strike is the radical Pan Africanist Congress, usually part of an uneasy alliance with the ANC

Police and army presence in black townships in Johannesburg and elsewhere has already been stepped up. Many workers in the industrial area around Johannesburg were last night sleeping away from home, some at their place of employment, in order to show up today. But as in past politically motivated strikes, most workers in the main cities are expected to stay away, either by choice or under duress.

As significant as the strike itself is the presence of a 10-member United Nations team of observers which arrived in the country yesterday. It marks the first stage in the UN's involvement in efforts to end South Africa's political violence and break the deadlock in constitutional negotiations.

Mr Cyrus Vance, the UN envoy who completed a fact-finding visit on Friday, is expected to propose an expanded UN role when he reports back to the security council this week.

The UN observer team is more symbolic than practical. The 10 members will be spread out across a country around six times the size of Britain.



The Greek-registered bulk carrier Brahms lies with its bow deep in the water after colliding with a container vessel in international waters south of Singapore yesterday. There were no casualties in the accident

Warning for Bundesbank over 2% inflation target

By Christopher Parkes in Bonn

WEST GERMAN inflation, the key to the Bundesbank's interest rate policy, is not expected to approach the central bank's target of 2 per cent until the second half of the decade, according to the Ifo economics research institute in Munich.

It will be "difficult" to hold consumer price increases significantly below 3 per cent before then, the institute says in a medium-term forecast released today.

As a result there will be "only a little" relaxation of monetary policy for the time being. The institute, one of Germany's leading independent research centres, rules out any cuts in interest rates in the immediate future.

The study's findings suggest that other European governments, clamouring for relief from the Bundesbank's strictures, may have to wait longer than expected, or find ways to stimulate domestic economic activity without relying on reduced German interest rates.

From just under 4 per cent this year, average German inflation should stabilise near 3.5 per cent during 1993, easing further as the decade progresses to between 2 and 3 per cent.

The next few years will be characterised by "a moderate but climbing growth trend in the west and a permanent recovery process in the east".

Pan-German growth will average 3 per cent a year, picking up from the 1.25 per cent expected this year. Increased competition for goods and labour, combined with stability oriented monetary and financial policies, should keep inflation under better control. Even so, the report warns, "the risk of a loss of stability is still present in the west because of the current conflicts between monetary, finance and pay policy".

But the greatest problem, it claims, will come from the labour market in east Germany. Projections suggest that, after a further dip next year to 5.5m, the number of people productively employed will not increase for the next seven years.

This implies unemployment rates of about 20 per cent, compared with 17 per cent at present.

Urging renegotiation of union agreements which have promised most employees wage parity with the west by 1994-95, the report says that high pay will discourage potential investors and worsen the outlook for job prospects.

Italy

Continued from Page 1

federation, said: "With the consensus of government, employers and unions, we have created the conditions for a period of stability for the cost of labour and peace in the factories."

The tripartite deal was a blow to the CGIL, the biggest of Italy's three trades union federations, and prompted the resignation at the weekend of Mr Bruno Trentin, its highly-regarded general secretary.

Mr Trentin said he felt obliged to step down as the government and employers had failed to meet his demands for a number of changes to the deal.

He said he had decided reluctantly to sign the deal, as the alternative would have been to risk a potential government crisis. The CGIL leans towards the Democratic Party of the Left, Italy's former communists.

Thai generals demoted

Continued from Page 1

Gen Chainarong Noonpakdee and the commander responsible for dispersing demonstrators in May, was appointed head of the Institute of Army Academics.

The new army chief is Gen Wimol Wongwanich, seen as a tactful and competent soldier. Air Chief Marshal Gun Pimarnthip, the new air force commander, said he would try to steer officers along professional lines "and would not allow them to become political or business soldiers".

Opponents of the military welcomed the demotions, and the Confederation for Democracy praised Mr Anand for what it called his "political courage".

However, the general in charge of the junta which ran the country after last year's coup d'etat was quoted by the Thai press as saying that the changes were "too drastic". An unrepentant Gen Sunthorn Kongsompong also said it was unfair to blame only the military for the May killings. "What about the people who instigated the riot?" he asked at his 61st birthday ceremony.

Mr Anand, a businessman and former diplomat appointed interim prime minister by the King after the May shootings and the resignation of the previous premier, is running the country until new elections in September.

He made the announcement after receiving a report on the events of May from the defence ministry. The timing of the demotions means that the former military commanders will have no say in the annual October reshuffle of senior officers, will play no important part in the celebrations of the Queen of Thailand's birthday, and will not be able to register as candidates for the election because the deadline has passed.

Tudjman expected to be re-elected in Croatia

By Laura Silber in Zagreb

REFUGEES in a desperate plight in Croatia yesterday were divided over who would be the best new leader for their war-torn republic.

"Franjo Tudjman will lead us out of the crisis. If he hadn't been president, Croatia would never have been recognised," Mrs Anka Capan, a refugee for the past 10 months, said yesterday.

Mrs Capan and other refugees from the village of Slunj have been living in Karlovac, a town 50km from Zagreb, in homes previously owned by Serbs.

Shrapnel-scarred buildings, sandbags and boarded-up windows indicate the fears of renewed violence in Karlovac between Croat and Serb militias.

Yesterday, many refugees said they had voted for the 70-year-old former communist army general in Croatia's first elections since winning independence from Yugoslavia. Mr Tudjman yesterday was already claiming victory for himself and the ruling Croatian Democratic Union (HDZ).

The war and the need for Croatia to gain control over its territory dominated the presidential and parliamentary elections.

However, a poll in Slobodna Dalmacija, an independent Croatian daily, has predicted that Mr Drazen Budisa, president of the Croatian Social Liberal party, (HSLS), the strongest opposition party, will win in the second round if the Croatian president has failed to gain more than 50 per cent of yesterday's vote.

Some of Croatia's 750,000 refugees said Mr Budisa would bring change faster than Mr Tudjman. Mr Zlatko Druzar, a refugee from Toranj who is now a soldier, said the HSLS and the Croatian People's Party were more "democratic" than the ruling HDZ.

Another opposition party is the Croatian Party of Rights; its members claim to be the followers of the pro-Nazi Ustashe, who during the second world war killed hundreds of thousands of Serbs, Jews and gipsies.

Special polling stations in the parliamentary elections for the 124-member lower chamber have been set up for refugees, but balloting is not being held in the zones now patrolled by the United Nations.

The exact number of voters is unknown, but is estimated at 3.5m. It is also unknown how many Croats in the diaspora will be allowed to vote, and fears of election irregularities have marked the one-month campaign.

It could not be confirmed yesterday whether the poll was being held in Bosnia-Hercegovina, whose inhabitants were recently granted dual citizenship. First unofficial results are expected today.

Sniper kills refugee children on bus, Page 2
How safe zones for Bosnia might work, Page 2

THE LEX COLUMN

When rights go wrong

These are bad times for big rights issues. Last Friday BET's shares closed at 110p, bang on the price for its £200m issue which closes this Wednesday. BET's is the 12th rights issue of more than £100m in the past year. Of the other 11, eight have underperformed the market since the issue was announced. Even allowing for striking successes like De La Rue and Bowater, the crude average is an underperformance of 11 per cent. Extending the list back to last spring brings in real turkeys like Trafalgar House and Taylor Woodrow, which have underperformed the market by 73 per cent and 75 per cent respectively.

The reasons for underperformance are various. Mostly, they come down to the fact that the companies wanting money were either in struggling sectors – contracting, hotels, building materials – or were struggling themselves, like Asda or British Aerospace. The other common theme is that the institutions ought to have known that perfectly well at the time. Either they were resigned to throwing good money after bad, or they were still naive enough to be drawn by the spurious promise of something for nothing.

The institutions are bound to catch on sooner or later. For companies, the rational response would be to exploit the growing institutional fashion for bonds rather than equities. The UK corporate bond market is still grossly underdeveloped. But if the outlook really is for low inflation and low growth, long-term fixed rate finance should suit borrowers as well as lenders. Finance directors might argue that they cannot be sure of servicing fixed rate obligations. If that is so, they have no business calling on their shareholders either.

Gilts

The allocation of institutional assets between bonds and equities continues to stir debate. Pension fund managers, though, seem more interested in more mundane choices between bond markets. Provisional figures produced by the performance measurement specialist Caps for the first half of this year suggest UK pension funds increased their gilt weighting, including index-linked, from 5.1 per cent to 6.9 per cent over the period. This slow build-up was at the expense of overseas bonds rather than domestic equities. The average allocation to overseas bonds fell from 5.5 per cent to 4.1 per cent over the period. UK equities were steady at 58.5 per cent.

Bond Yields

Source: Datastream

Institutional cash has been flowing into gilts faster than this suggests. Bank of England figures show domestic investors buying £6.8bn of gilts in the last quarter alone. Anecdotal evidence points to life companies as more enthusiastic buyers. Norwich Union, which sparked the bonds/equities debate last year by switching £1bn from equities into gilts in a single week, is now directing the bulk of its cash flow to UK government bonds. Its main with-profits fund is now 25 per cent in sterling bonds. A few institutions, such as Scottish Equitable, admit to a weighting as high as 60 per cent.

Even so, the behaviour of pension funds is a reminder that the relative value of gilts against other bond markets is an important factor in determining overall demand. This is equally true of overseas investors. The government needs the support of both if its funding programme is to proceed at current yields or lower. The gilts market knows as much: figures showing a resurgence of overseas buying in June were greeted with relief.

The broader question is whether demand will be sustained. Judged against continental European markets, UK government bonds look expensive. As the chart shows, the yield spread between gilts and French government bonds at the 10-year maturity has narrowed from 1.2 per cent in January to 0.3 per cent at the end of last week. In terms of economic fundamentals, France offers lower inflation, a lower budget deficit and no less room for monetary easing. Either the French market is oversold ahead of the Maastricht referendum, or the risk premium on gilts is too low.

If France does vote against Maastricht on September 20, pressures for an ERM realignment will intensify. This is not just a problem for France. So far this year the weakness of sterling within the mechanism has encouraged overseas investors to buy gilts in anticipation of a currency gain. If the credibility of current ERM parities is seriously called into question, the effect could be reversed.

Latin America

A decade on from the debt crisis, capital is again flowing into Latin America. The channels are different this time around, with the bond market and equity offerings in privatised companies taking the place of the banks. On the debt side, Latin American economies have been the direct beneficiaries of low US interest rates. Retail savings have flowed into high-yield bond funds and, since the demise of the domestic US junk bond market, Latin debt has been a natural destination. The incentive is clear: last month an Argentinian bank raised one-year money in the Euromarket at a rate 5.5 percentage points above US treasury paper. It remains to be seen whether retail dollar inflows will show a reversal in line with the US interest rate cycle.

Equity investment in Latin American markets still requires a leap of faith. On conventional methods of equity valuation Latin American equities already look heavily over-bought. Even after a sharp reversal, the Argentinian market is trading on a current year multiple of 25 times earnings. Proponents of the region argue that earnings are artificially depressed because companies are in a recovery phase following depression in the 1980s. Still, the 33 per cent fall in Brazilian equities over the last three months served as a reminder that Latin American stocks are not for the faint-hearted. Telebras, the telecommunications company which attracts the bulk of overseas investment in Brazilian equities, has shown a trading range of $5.26 to $36.22 per thousand shares over the last year and currently stands at around $18.

The recent volatility of equity markets across the region has stemmed from the corruption scandal involving President Collor of Brazil. The whole sorry saga has underlined that the shift towards market-oriented economics and the hopes for a sharp earnings recovery in the region rest squarely on political stability. As with so many developing markets, investment in Latin America is a bet on long-term reform.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	29	84	Boulogne	C	20	68	Frankfurt	S	28	82	Majorca	S	33	91	Oporto	S	23	73	Tenerife	F	25	77
Algiers	S	35	95	Brussels	R	20	68	Geneva	S	31	88	Malaga	F	29	84	Oslo	C	15	59	Tokyo	C	22	72
Amsterdam	C	20	68	Budapest	S	29	84	Gibraltar	F	26	79	Malta	S	34	93	Paris	C	25	77	Toronto †	F	18	64
Athens	S	32	90	Buenos Aires		-	-	Glasgow	C	16	61	Manila	C	33	91	Prague	S	29	84	Tunis	S	35	95
Bahrain	S	39	102	Cairo	S	32	90	Helsinki	S	21	70	Melbourne	C	12	54	Reykjavik	R	12	54	Valencia	S	32	90
Bangkok	F	33	91	Cape Town	F	8	46	Hong Kong	F	30	86	Mexico City				Rhodes	S	28	82	Venice	S	31	88
Barcelona	S	19	66	Caracas	C	27	81	Innsbruck	F	25	77	Miami †	S	27	81	Rio de Janeiro			-	Vienna	S	29	84
Beijing		-	-	Casablanca †	F	26	79	Inverness	F	17	63	Milan	S	31	88	Rome	S	32	90	Warsaw	S	30	86
Beirut	S	28	82	Chicago †	S	17	63	Islamabad	F	31	88	Montreal †	F	18	64	Salzburg	S	25	77	Washington †	S	20	68
Belfast	C	16	59	Cologne	C	23	73	Istanbul	S	28	82	Moscow	C	16	61	S'Francisco †	S	12	54	Zurich	F	29	84
Belgrade	S	34	93	Copenhagen	F	25	77	Jakarta	S	33	91	Munich	S	29	84	Seoul	T	31	88				
Berlin	F	28	82	Corfu	S	31	88	Johannesburg	S	13	55	Nairobi	S	22	72	Singapore	T	29	84				
Biarritz	S	26	79	Dallas †	S	23	73	Lisbon	S	33	91	Naples	S	31	88	Stockholm	F	21	70				
Bombay	R	26	79	Dublin	C	17	63	London	C	19	66	Nassau	F	33	91	Strasbourg	F	31	88				
Bordeaux	C	25	77	Dubrovnik		-	-	Los Angeles †	F	19	66	New Delhi	F	30	86	Sydney	S	17	63				
				Edinburgh	C	17	63	Luxembourg	F	25	77	New York †	S	21	70	Taipei	S	34	93				
				Faro	S	33	91	Madeira	F	23	73	Nice	S	29	84	Tangier	F	33	91				
				Florence	F	30	86	Madrid	S	31	88	Nicosia				Tel Aviv	S	30	86				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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Monday August 3 1992

INSIDE

Philips struggles to lift the gloom

Top managers at Philips of the Netherlands, including chairman Mr Jan Timmer (left), face a formidable task when they announce the Dutch electronic group's half-year results on Thursday. They will be at pains to bolster confidence as they report a substantial drop in second-quarter figures and a less-than-rosy outlook for the second half. And news last week that the group would delay the launch of its digital compact cassette (DCC), an important new consumer product, due to manufacturing problems, dealt a further blow to its already dented reputation. Page 15

Debt offerings for all tastes

Banks are still hungry for capital, as the deadline approaches for meeting Basle capital adequacy ratios at the beginning of next year. Investment bankers are responding by creating some ingenious ways of structuring debt offerings so they will both meet investors' rather picky appetites and satisfy regulators. Page 17

Fresh choice on UK economy

The UK government is in a predicament: calls from industry for it to "do something" about recession are getting louder; commitments to the European exchange rate mechanism mean it cannot cut base rates; and it has ruled out fiscal measures to stimulate the economy. So what can the government do? One avenue, about which there has been much speculation, would be to under-fund the public sector borrowing requirement. Page 16

Nissan UK Holdings edges down

Nissan UK Holdings, former UK distributor of Nissan vehicles, achieved a pre-tax profit of £65.4m ($124.9m) in the year to the end of July, 1991, down from £68m the previous year. Turnover dropped 26.5 per cent to £599.4m. Page 14

Dull outlook for European bonds

Europe's government bond markets have had a terrible summer, tumbling to the bottom of the performance tables in June and July. Concern about the future of the Maastricht Treaty on economic and monetary union, and worries that the Bundesbank intends to keep German interest rates high for this year have troubled the markets in recent weeks, and these factors are likely to dominate the bond markets in the foreseeable future. Page 16

Market Statistics

Companies in this issue

Banks win battle over WPP rescue

By Norma Cohen, Investments Correspondent

DISSIDENT shareholders in WPP, the worldwide media services group, dropped their opposition to a proposed restructuring plan after accepting that the banks were likely to put the company into receivership, costing them their investment, a leading shareholder said.

Fidelity Investments, the US-based investment company which holds a stake of about 10 per cent in WPP, announced on Saturday it would support the restructuring plan, an abrupt reversal of its earlier position.

Fidelity has led an unusually public campaign to persuade WPP's preference shareholders that terms of the reconstruction give too much to the company's lenders.

Fidelity and other shareholders had said they believed the banks were bluffing and did not intend to act on their threat to place WPP in receivership if the restructuring was rejected.

Mr Anthony Bolton, senior investment director at Fidelity, said that although most of the group still believe the restructuring plan unduly favoured the banks, shareholders realised the banks could protect their own stake by a controlled receivership known privately among the lenders as "Plan C".

The banks were said to have spent more than £700,000 ($1.3m) in legal and other fees over the past few weeks devising Plan C.

Mr Bolton said that following a conference call with a group of preference shareholders – who between them hold 30 to 40 per cent of all preference shares – investors agreed to back down.

He said that rather than be the sole dissenter, Fidelity approached the lenders and offered to drop its opposition. In exchange the preference shareholders' gain the right to recommend a candidate for a new non-executive director on the WPP board.

"We went through in some detail the plans for administrative receivership. Although it is very complex, it appears perfectly legal," he said.

The plan called for the banks to put the WPP holding company into receivership and transfer all its operating subsidiaries – many of which are profitable – into a new company. This would have left shareholders owning the worthless holding company while the banks held the profitable subsidiaries.

Review of British Gas could lead to a radical shake-up, writes Neil Buckley

Simmering row comes into the open

A radical shake-up in the UK gas market may follow the decision by Mr Michael Heseltine, trade and industry secretary, to ask the Monopolies and Mergers Commission to conduct a comprehensive review.

Meanwhile, British Gas shareholders, employees, customers, and competitors may face more than a year of uncertainty, which could bring the share price under pressure and delay development of competition.

The utility has long complained that sometimes conflicting demands from the industry regulator Ofgas, the Office of Fair Trading, and the department of energy, was making it impossible to plan effectively.

British Gas came close to calling in the MMC last year when it was forced by Ofgas to submit to a tough price-capping formula soon after agreeing to OFT demands to halve its share of the industrial gas market and hive off its pipeline and storage business.

British Gas felt the pressure those agreements would put on future earnings meant it should be allowed to earn a reasonable rate of return on its pipeline business. It was failure to reach even a compromise agreement on this with Ofgas that led to the MMC being called in.

Observers suggest the promotion of Mr Cedric Brown to chief executive was also an important factor. While Mr Brown said on his appointment he wanted to "build bridges" with the regulator, he is known to be combative and uncompromising.

After three meetings with Sir James McKinnon, director-general of Ofgas, the two concluded agreement was impossible.

"In fairness, Sir James McKinnon was caught between the devil and the deep blue sea," a British Gas source said yesterday. "On one hand he had the Major Energy Users Council asking him to keep the rate of return at the present 4.5 per cent to keep prices down. On the other, he had independent suppliers who want to build their own pipelines asking for an even higher rate of return than British Gas."

Oftel's Sir James McKinnon (left) and Mr Cedric Brown of British Gas: agreement impossible

Sir Bryan Carsberg, OFT director-general, said in spite of the inevitable period of uncertainty, he broadly welcomed the MMC inquiry which would be "an opportunity to go over the whole field and establish a stable regime for some years."

"I don't think one should regard it as a failure of the [regulatory] system. The MMC is part of the system, it is planned for, and I think the public will benefit from references like this from time to time."

However, if regulatory changes made medium and long-term planning difficult for British Gas, the MMC investigation will make it virtually impossible. Aside from uncertainty about the findings, the review will put heavy demands on management time.

Planned changes may have to be put on ice. A thousand British Gas workers are already refusing to move from London to Solihull as part of a management shake-up because of fears of further restructuring.

The share price, too, could languish or begin a long slide.

The City of London has reacted positively to rumours of voluntary restructuring by British Gas. But the length and unpredictability of an MMC inquiry is likely to have the opposite effect.

"I think people are inevitably going to start dumping the shares," one analyst said yesterday. "Even though the MMC report could eventually bring good news, it will be a long time to wait."

The Department of Trade and Industry said on Friday the MMC was required to report within nine months, but observers felt an extension may be necessary.

The last MMC inquiry into the industrial gas market – with a narrower scope than the coming review – began in November 1987 but did not report until October 1988. Even if the MMC reports within nine months, the government will need time to assess its findings.

Industry observers believe the government is committed to radical restructuring of the gas market, and would impose sweeping changes if the MMC report supported these.

It has already attempted to accelerate competition. Mr Tim Eggar, energy minister, moved quickly after the Conservatives' general election victory to announce that British Gas's monopoly threshold would be lowered from 25,000 therms a year to 2,500 therms a year. This would allow 200,000 smaller commercial and industrial consumers, and bodies such as schools and local authorities, to receive gas from independent suppliers.

Mr Eggar said he would consider opening the household market to competition in May next year – three years earlier than expected.

More recently, at a conference of the Major Energy Users Council in London, a DTI official outlined a radical programme of possible changes in the gas market, including developing a spot market for gas trading, promoting competition in transportation and storage and opening the market to more imports from Europe.

Mr Jonathan Stern, a gas consultant and industry researcher, suggests that at the least, the MMC will modify arrangements to introduce competition into the market. It may propose a further review of the progress of competition after, say, five years, with the threat of breaking up British Gas then if progress has been too slow.

"But there is a more than 50-50 chance it will recommend the immediate break-up of the company," Mr Stern added.

The MMC could recommend British Gas hive off both its regional supply businesses and pipeline arm. The government might then use competition laws to persuade British Gas to sell these businesses.

There are dangers with such an approach. One is that supply companies in Scotland and eastern England could charge less for gas because of lower transportation charges, while those further from North Sea terminals would have to charge customers more. Protests from customers about such moves could increase the political controversy which already exists over gas supply.

Where the wise rehearse well beforehand

By Maggie Urry in London

VOLUNTEERING to go before the UK Monopolies and Mergers Commission is like offering to stand before a firing squad playing Russian roulette. Anyone who survives would not relish repeating the experience.

The fact that British Gas has brought this fate on itself was seen as a reflection of the extent to which relations between it and its regulator have broken down.

A vital part of a company's strategy or an industry's whole basis of operation can depend on a few hours' grilling by a team of highly expert interrogators at their offices in Carey Street, the site in London of the old bankruptcy court.

They can ask anything, and there is little guidance on which aspect of a takeover, merger or suspected monopoly position they will pick on.

The commission takes a different attitude to people giving evidence to an inquiry, when they are more likely to listen politely.

One who has been through the experience is Mr Tim Clement-Jones, company secretary of Kingfisher, the retail group which bid £568m ($1.08bn) for rival Dixons in December 1989. The bid was referred to the MMC in January and the commission was given three months to report. Eventually the bid was blocked.

Mr Clement-Jones says that being summoned before the tribunal, whose members sit round a semi-circular table, gives "a feeling of corporate nakedness that can best be compared to appearing before the House Unamerican Activities Committee. It is a very thorough process".

Others who have suffered the same fate say it is like having an oral examination on a thesis.

After producing evidence inches thick, involving hundreds of hours of senior management time, the commission's members can ask questions on any point. The wise rehearse well beforehand.

Mr Clement-Jones' tip is to provide lots of evidence based on market research. "They seem to be very influenced by market research," he says.

Lawyers can help produce the evidence, but when it comes to the meeting it is the directors of the company themselves who the commission's members want to see. If they are not satisfied after the first meeting they can recall their victims for further questioning.

Powerhouse of the UK runs out of steam

Economics Notebook

By Peter Norman

Is Britain's imbalanced regional economic structure proving bad for the nation's welfare?

For some years the concentration of economic and political power in the south east of England has appeared increasingly anomalous in a Europe where regional influences are of growing importance. But the ability of the south to function as a powerhouse for the UK economy has tended to offset such concerns.

Now, with the economy showing no signs of coming out of recession, fears are growing that conditions in the south may instead be acting a as brake on recovery.

The recession has been less savage in northern England, Scotland and Wales than in the heavily indebted south east. Unemployment increased 111 per cent in Greater London between April 1990 and June 1992 and jumped 192 per cent in the rest of the south east. But it rose only 16 per cent in Scotland and 29 per cent in the north of England over the same period.

In the past week, two reports suggest that this trend will continue in the short term at least. Business Strategies, a consultancy specialising in regional issues, forecasts growth of 1 per cent in the small East Anglian economy this year, 0.8 per cent in the north west and 0.5 per cent in Yorkshire and Humberside. By contrast, it expects output in the south east to drop by 0.4 per cent this year and in Greater London by 0.8 per cent.

In his latest "Economic and Financial Outlook", published today, Mr David Kern, the chief economist of National Westminster Bank, expects the south east economy, including Greater London, to contract by 1.1 per cent this year and that unemployment in the region will jump by 19 per cent in the 12 months to next June.

By mid-1993, around one in three of Britain's expected 3.05m jobless will be in Greater London and the remainder of the south east. However, output north of a line from the Wash to the Bristol Channel will be barely changed with unemployment in these regions only slightly higher, Mr Kern believes.

Economists at James Capel, the London stockbrokers, have taken the study of regional economic trends further. They say the regional imbalance in UK economic growth and unemployment explains the failure of consumer spending to recover and pull the economy out of recession.

The Capel study concludes that unemployment in the south east has a more powerful impact on spending than suggested by its direct effect on real income growth and debt service obligations. Increases in unemployment in the region seem to affect strongly the savings habits of people who are in work and do not have debt problems.

The Capel team sum up their findings in a simple mathematical formula. "If the unemployment rate in the south east rises by 1 per cent relative to the national rate, national consumption will fall by 1 per cent," they say.

Consumer spending is the largest component of demand in the UK and has in the past 10 years acted as the main engine of economic growth. But it declined in real terms by 1.8 per cent last year and a further 0.7 per cent in the first quarter compared with the final three months of 1991.

Most explanations for the poor performance of consumer demand have centred on the after-effects of the sharp rise in household indebtedness in the late 1980s, especially in the south east. However, the James Capel team, headed by Mr Keith Skeoch, the company's chief economist, argues that the problems of debt and the housing market fail to provide a full explanation of the fall in consumption.

The reasons for this lie in the south east's traditionally high levels of consumption. The region contains just over 30 per cent of the UK population but accounts for more than 35 per cent of total UK consumer spending because consumption per head is 17 per cent higher than the national average.

The south east spends nearly 25 per cent more per head on housing compared with the rest of Britain, making the region especially vulnerable to a housing market slump. Personal disposable income in the south is 14 per cent higher than the national average.

These figures explain how the south east was the powerhouse behind the economic boom of the 1980s and why rising unemployment in the region has a big impact on consumer spending. The problem has been exacerbated by a sharp rise in savings in the south east by people not directly affected by job losses.

Saving in the south east slumped in the 1980s, with the result that personal savings as a percentage of personal disposable income fell in the region to less than 3 per cent in 1987. Since then, the sharp rise in unemployment in the south east has coincided with – and triggered – a sharp recovery in the region's savings ratio.

The Capel economists calculate that between 1987 and 1990 (the most recent date for regional savings figures), savers in the south east accounted for 45 per cent of the increased flow of personal savings in Britain. This trend, which subdued consumption at the national level, is assumed to have continued.

If the link between high south east unemployment and consumer spending is valid, the future must surely be grim. NatWest's Mr Kern, for example, anticipates an increase of 150,000 in the number of jobless in the south east over the next 12 months.

But Mr Skeoch's team hesitates to pile on the gloom. Although the sharp rise in the saving ratio in the south east has been a major factor depressing consumption, they believe that the "worst may well be behind us" because consumers will have adjusted their balance sheets and worked off their excess debt. Even more important, they say that real income growth may have picked up since the first quarter of this year.

These conditions could produce a "robust revival" in consumer spending by the end of the year. For Mr Lamont and his embattled Treasury colleagues that will not be a moment too soon.

Walbrook directors face High Court fight

By Andrew Jack in London

DIRECTORS of Walbrook Insurance, the insurance and re-insurance company which has net liabilities of £170m ($324.7m), are expected to fight a last-ditch attempt in London's High Court tomorrow to stave off liquidation.

If they fail, Walbrook will pass into the hands of provisional liquidators, triggering substantial payouts from the Policyholders' Protection Board, the UK insurance industry safety net, and opening the way for potentially long, costly and complicated insolvency proceedings.

Walbrook, a subsidiary of London United Investments which is in administration, was a leading insurer of US liability business in the London market during the 1980s.

The winding-up petition in the High Court has been brought by Transit Casualty, a Missouri-based insurance company in receivership since 1985, which opposed an informal plan proposed by the directors last month.

The directors still have the option of requesting a formal scheme of arrangement under Section 425 of the 1985 Companies Act, which would allow them to remain in charge of the company. They are believed to be urging creditors to attend the court and speak out in favour of the scheme.

Transit has proposed that partners with Cork Gully act as provisional liquidators. However, their role as liquidators to the Kelm companies, another part of the LUI group, raises the prospect of a conflict of interest.

Manders expects surge in profits

By Peggy Hollinger

MANDERS, the Wolverhampton-based paint, ink and property group, yesterday forecast annual profits of at least £8.2m and a 20 per cent rise in the dividend as part of its defence against the £89m bid by rival paints group Kalon.

The forecast, which compares with 1991 profits of £6m, accompanied interim results showing a 66 per cent increase in pre-tax profits to £4.1m.

The interim dividend, payable on November 9, is being raised 30 per cent to 2.6p which, with the forecast final of 5.8p, makes an 8.4p (7p) total.

Mr Roy Amos, chairman, said the interim rise showed "the underlying strength of Manders' businesses even in the midst of a recession." The group refused to specify the contribution from Windeck, the paint manufacturer purchased for £5.66m in December.

Mr Mike Hennesy, managing director of Kalon, believed the underlying performance without Windeck was disappointing.

Mr Roger Akers, Manders' chief executive, said the profits rise was due to acquisitions and organic growth. However, it also reflected the sale of the loss-making tile distribution business in March.

Turnover for the six months to June 30 rose by 11 per cent to £56.1m. Earnings improved from 5.26p to 7.74p.

Mr Akers was scornful of Kalon's 8-for-3 offer, valuing Manders shares at 241p. He compared the 18 per cent fall in Kalon's share price since the offer was launched in June with the 10.6 per cent decline in the FTA All-Share. "At this level, it is far too cheap," he said. Kalon's shares closed steady on Friday at 90.5p, while Manders rose 10p to 239p.

Yeoman restructuring plan

By Philip Coggan

YEOMAN Investment Trust has announced plans for a restructuring which will extend the life of the trust until 1999.

The trust was due to be wound up this year, after having been converted into a split capital trust in 1986.

Capital shareholders will be offered the chance to convert their shares into new zero dividend preference shares at liquidation asset value (the value they would have received had the trust been wound up). The liquidation asset value will be set on August 18.

The new zero dividend shares will entitle holders to receive an annual gross redemption yield of 10 per cent over the lifetime of the trust.

Some capital shareholders may want to realise their holdings for cash. Accordingly Yeoman has agreed to find purchasers for the new zero dividend shares, up to a total of £23.5m. Yeoman has also agreed to place 1m zero dividend shares.

Henlys wins orders of £17m

By Peggy Hollinger

HENLYS, the motor trader and coach manufacturer fighting a hostile £25m all-paper bid from rival T Cowie, has won its largest single order on the back of a deal with unions for a two-year pay freeze.

The group announced orders for more than 370 buses and coaches worth some £17m over the next 24 months. The largest order – 150 coaches for Stagecoach Holdings – represented sales of about £7.5m.

The company's 700 employees at the Scarborough coach and bus factory agreed on Friday to a series of measures, including the elimination of private and permanent health insurance and a revised productivity bonus scheme.

S&P may downgrade ICI debt

By Tracy Corrigan

IMPERIAL Chemical Industries' $3bn (£1.5bn) of long-term debt has been placed under review for possible downgrade by Standard & Poor's, the US rating agency, following Thursday's announcement that the group may be divided into two separate public companies.

Moody's, the other leading US rating agency, said it is expanding its review of the company's debt to include the rating implications of the split.

Moody's placed ICI's debt under review for possible downgrade on July 15, prompted by increasing evidence of a slower pace of recovery in profitability.

ICI's debt is currently rated AA- by S&P and AA3 by Moody's.

Although the future capital structures of the two companies has not been determined, S&P expected "a large portion of existing debt" to remain at ICI, which would then consist of the less profitable and more cyclical industrial chemical operations.

Nissan UK counts the mounting costs of legal battle

NUK to concentrate on property after loss of car franchise: Kevin Done reports

NISSAN UK Holdings, the former British distributor of Nissan vehicles controlled by Mr Octav Botnar, achieved a pre-tax profit of £65.4m in the year to end-July 1991, a small decline from £68m in the previous year.

Turnover dropped by 26.5 per cent to £599.4m but profits were maintained by a substantial jump in income from parts and accessories operations. Some 22 per cent of Nissan UK profit came from property and investment income.

Nissan UK lost its exclusive, lucrative franchise to import and distribute Nissan vehicles with effect from the start of 1992, following a long conflict with Nissan Motor, the Japanese car maker.

The company, previously the most profitable independent vehicle importer/distributor in the UK, will continue as "a property investment company" once it has disposed of its remaining vehicle stocks, says the NUKH annual report.

It is facing rapidly mounting costs as a result of the array of legal battles that are being fought by the Botnar-controlled companies both against Nissan Motor and against the Inland Revenue, which staged its largest ever corporate raid against NUK last year.

The NUKH accounts disclose net extraordinary charges of £8.67m. The charge for legal fees arising from the Inland Revenue investigation totals £3.63m, while legal fees and other costs arising from the loss of the Nissan franchise total £5.04m.

Last month the High Court ruled that it must also pay damages of £804,000 for breach of contract and the wrongful dismissal of a former Nissan UK assistant managing director.

NUK, itself, is seeking damages of several hundred million pounds from Nissan Motor for the loss of the franchise in arbitration proceedings currently under way in Tokyo.

In the NUKH annual report the company accepts, however, that "the likely amounts receivable are impossible to quantify".

NUK is also pursuing a claim for £6m against Nissan Motor in the British courts for what it alleges are "unpaid advertising contributions".

Octav Botnar: warrant issued for his arrest

Mr Botnar, who has remained outside the UK since January following the issuing of a warrant for his arrest by the Inland Revenue – he is presently believed to be living in Switzerland – received a salary, excluding pension contributions, of £353,000 last year from NUKH. In addition he received £130,000 from Automotive Financial Group Holdings, the related motor dealer group of which he is also chairman.

NUKH's "ultimate parent undertaking" with a stake of 71.52 per cent is the Panama-registered European Motor Vehicles Corporation. It is controlled by the trustees of a settlement made by Mr Botnar in 1974, which also control GF International Finance and Investments, the "ultimate parent undertaking" of AFGH, which is incorporated in the Bahamas.

Combined, the Botnar-controlled companies NUKH and AFGH achieved a total pre-tax profit in 1991 of £130.1m (£142.6m) on a turnover of £1.44bn (£1.76bn). Total dividend payments were tripled to £60m (£20m) with Mr Michael Hunt, NUK deputy chairman and assistant managing director, receiving a total of £6.38m as a result of his 10.63 per cent beneficial holding in both companies.

The NUKH annual report indicates that the group's finances have been radically restructured since the end of the last financial year following the loss of the Nissan franchise.

In May this year the fixed and floating charges on the group's assets, which had provided security for both its bank borrowings and the bank borrowings of other related companies totalling £330.4m, were released.

Mr Botnar has reduced the companies' dependence on bank finance. Automotive Financial Services, the finance arm of the group of companies controlled by Mr Botnar and a subsidiary of AFGH, has replaced a "significant" part of its banking facilities.

It has gained medium term funding by securitising a large part of its hire purchase receivables through a £220m issue of floating rate notes through a newly-created subsidiary, Auto Funding.

NUKH remains a major contributor to charities with donations totalling £2.77m in 1991. It is committed to paying £8m towards building a new wing for the Great Ormond Street children's hospital in London.

NEWS DIGEST

African Lakes in the red

LOSSES of £45,042 before tax were announced by the African Lakes Corporation for the half year to March 31.

The group, which has interests in motor trading, agriculture, mining, engineering and computer supplies, achieved profits of £81,322 last time.

Although turnover improved to £22.7m (£19.7m) profit margins were substantially reduced. Losses per share emerged at 5.01p (1.49p).

Worthington Group

Worthington Group, a manufacturer of specialised products for the clothing, soft furnishing, lampshade and other industrial markets, suffered a 10 per cent fall in pre-tax profits to £462,000 for the year to end-March. Turnover rose by 28 per cent to £9.25m.

Earnings were unchanged at 3.6p and a final dividend of 1.1p makes a 1.4p (0.75p) total.

The company has acquired Hulme Holmberg and Atorp, a maker of components for clothing manufacture. A rights issue of 7.51m new ordinary shares on a 3-for-4 basis at 31½p per share will part fund the £2.25m purchase.

Riva

Assisted by cost reductions and a refinancing Riva Group, the USM-quoted supplier of electronic point of sale systems, returned profits of £314,000 in the six months to June 30 compared with previous losses of £1.07m.

Turnover totalled £28.6m (£29.4m). The result was struck after exceptional redundancy costs of £174,000 (£277,000). The net interest charge was down from £951,000 to £484,000.

Enterprise Computer

Enterprise Computer Holdings, a supplier of second user IBM mainframe computers in Europe, returned pre-tax losses of £8.33m for the 15 months to March 31. In the previous 12 months profits were £7.53m restated.

Turnover fell from £183.1m to £157.9m. There were exceptional provisions of £5.33m and extraordinary charges of £22m (£32.1m).

Losses per share emerged at 9.8p (7.4p earnings). There is no final dividend, which makes the total for the period 1.25p (2.5p).

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Allied-Lyons (UK) /Carlsberg (Denmark)	Carlsberg-Tetley (JV)	Drinks	£510m	gets green light
Ahold (Holland)/ Jeronimo Martins (Portugal)	JV	Food Retailing	£63m	S Europe debut for Ahold
Metallgesellschaft (Germany)	Minnova (Canada)	Mining	£60m	Izok Lake move
Fyffes (Ireland)	Saba Trading (Sweden)	Food distribution	£47.5m	Continental foothold gained
Franklin Resources (US)	Templeton Galbraith Hansberger (UK/Bahamas)	Fund Management	£478m	More possible consolidation
Chargeurs (France)	Guild Entertainment (UK)	Film distribution	£19m	Wembley non-core disposal
China National Aviation Corp (China)	Hong Kong Air Cargo Terminal (HK)	Cargo handling	£7m	CNAC buys government 10%
Pasteur Merieux Serums et Vaccins (France)/ Merck (US)	JV	Pharmaceuticals	n/a	Sector alliances continue
Toray Industries (Japan)	Phillips Petroleum Toray (US/Japan)	Plastics	n/a	Philips continues reorganisation
Financial Times (UK)/ Izvestia (Russia)	JV	Publishing	n/a	Developing FT franchise

Source: FT Mergers + Acquisitions International

COMPANIES AND FINANCE

Showa Shell falls 27% at midway to Y18.7bn

By Emiko Terazono in Tokyo

SHOWA SHELL Sekiyu, the leading Japanese oil refiner and distributor affiliated with Royal Dutch Shell, suffered a fall in non-consolidated sales and profits for the first half to June, due to falling crude oil prices and higher costs.

Pre-tax profits slid 27 per cent to Y18.7bn ($149.6m) on a 4.3 per cent fall in sales to Y764.8bn. Operating profits declined 33.3 per cent to Y25.8bn and after-tax profits slid 21.6 per cent to Y10.8bn.

Showa Shell blamed the decline on weak crude oil prices, higher distribution costs, and lower profit margins due to the economic downturn in Japan.

Non-operating losses were down by 45.6 per cent at Y7.1bn. Interest and dividends received fell 52 per cent to Y3.1bn and foreign exchange losses totalled Y2bn, but a 47.7 per cent decline in interest paid to Y9bn helped cut losses at the non-operating level.

For the full year, Showa Shell forecasts a 14.7 per cent fall in non-consolidated taxable profits to Y37bn.

● Shell Canada is trimming its capital and exploration budget this year by about 12 per cent to C$745m (US$620.8m) in response to continuing problems in its upstream and downstream businesses, writes Robert Gibbens.

First-half net losses were C$7m or 6 cents a share, against losses of C$95m or 84 cents a year earlier, on revenues of C$2.04bn, down from C$2.45bn. But changes in inventory accounting began on January 1 and the latest losses would have been C$17m or 15 cents a share.

Upstream operations remained modestly profitable, under pressure from lower natural gas and sulphur prices. Oil prices improved in the second quarter.

The company said downstream margins continued under severe pressure and restructuring of the loss-making oil products division were continuing. Chemicals should break even in the second half.

Dutch electronics group pauses for thought

The gloom at Philips has been deepened by the delayed launch of DCC, writes Michiyo Nakamoto

The top managers at Philips face a formidable task when they return from their summer holidays this week to announce the Dutch electronics group's first-half results on Thursday.

They will be at pains to bolster investors' confidence in the group, as they report a substantial drop in the second-quarter figures and a less-than-rosy outlook for the rest of the year.

News last week that the group would delay the launch of its digital compact cassette (DCC), an important new consumer product, due to manufacturing problems, dealt a blow to its reputation, which had already suffered a number of dents recently.

Over the last two months Philips's shares plunged after it surprised the market with a profits warning. This was followed by the resignation of two leading figures responsible for the development of compact disc-interactive (CD-I) and high definition television (HDTV), two of three products Philips is counting on to lead the recovery of its consumer electronics business.

The decision by Tandy, a leading US consumer electronics retailer, to stop manufacturing CD-I machines added to concerns that the product is not doing well in the US, where it has been on sale since last autumn. Philips's delay in launching DCC means that of the three products it is staking its future on, the one which had seemed most likely to gain quick market acceptance, is facing problems.

The move has damaged confidence in the group, which had been buoyed because DCC was being brought to market well ahead of its potential rival: Minidisc, to be launched by Sony.

Additionally, the announcement that DCC would only be sold in the UK, the Netherlands, France and Germany, rather than throughout Europe, appeared to show flagging confidence in the product's prospects.

Without more information, however, it is difficult for investors to assess the extent of the manufacturing problems causing DCC's postponement, or determine how soon it will be sold worldwide. Philips says the problems are minor and that the machines will be available "well before the Christmas selling season".

Perhaps the worst outcome of the recent events has been to undermine Philips's reassurances, so that its share price has fallen nearly 37 per cent from Fl 38 on June 16 to Fl 24 at the end of last week.

"There is a feeling that it is a company that is just failing to deliver what it promises," one analyst commented. While Philips is not alone in suffering depressed consumer demand, a continuing difficult outlook and worse than expected results, it is particularly vulnerable to investors' disappointment, because they see it as a bellwether of Europe's ambitions in consumer electronics.

There are also growing doubts over the three products Philips has positioned as its main profit earners and over whether they will be able to deliver the profits necessary to ensure its future health.

Philips is venturing into unknown territory with CD-I. The success of this product depends on the appeal to consumers of the software, but the availability of software titles has been disappointing in both the US and UK.

The future of HDTV, and its precursor, wide-screen TV, has been under a cloud as broadcasters have remained reluctant to commit themselves to agreed formats, and as efforts to develop digital television, a further technological advance, both in the US and Europe have gained momentum.

Meanwhile, there are doubts whether DCC will be a big enough success to lift consumer demand overall. The world-wide market for recordable digital sound equipment over the next five years is estimated by Nomura Research Institute, to total a little as $7bn.

Mr Miles Saltiel of Nomura, says: "Even assuming Philips gets a third of that, it doesn't represent a big enough market to rectify Philips's problems."

The most positive defence that Philips can make is that it is too early to judge the success of the three products. New products invariably take time to win acceptance. It took compact discs five years to reach 5 per cent penetration of the European market, while video cassette recorders took seven years to reach that level.

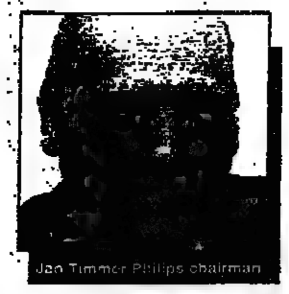
Given these timescales, at least one of Philips's new products could become the big success it desperately needs.

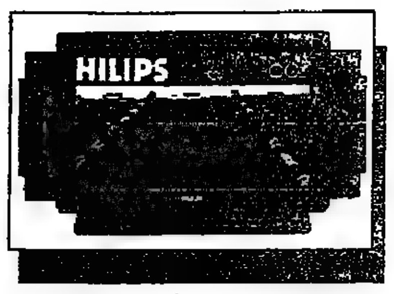
However, the pressing question for Philips in the short term is whether investors are prepared to give it the time it needs.

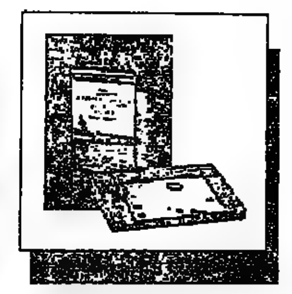
As one analyst says, whether Philips succeeds in winning back investor confidence depends largely on how it conducts itself at the meeting when it reports the first-half results.

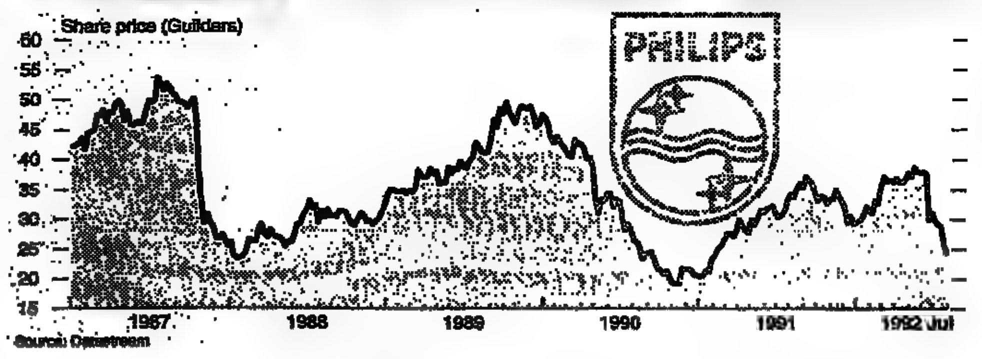
The task for top managers is to convince investors that everything is under control and the outlook is not as bad as it seems.

They are unlikely to be relishing their role.


Jan Timmer Philips chairman







Source: Datastream

Crédit Lyonnais to lead manage Ecu500m loan

By Sara Webb

THE European Community has awarded Crédit Lyonnais of France the mandate to lead manage a Ecu500m ($363m) three-year loan, marking the first time the EC has tapped the international syndicated-loans market in a decade.

The EC has agreed to pay a margin of 3.125 basis points – that is ⅛ of a percentage point – over the London interbank offered rate (Libor), with participation fees of 10 basis points. Although the terms appear tight, the EC is able to borrow at very low margins in the international loans market.

San Miguel lifts income 3% in first six months

By Jose Galang in Manila

SAN MIGUEL Corporation, the largest private enterprise in the Philippines, has announced a 3 per cent increase in its first-half net income to 1.56bn pesos ($63.6m).

Consolidated net sales totalled 28.8bn pesos, up 15 per cent from the same period last year. Before extraordinary expenses arising mainly from its employee-separation programme, consolidated net income was up 42 per cent at 1.67bn pesos.

San Miguel has been cutting its labour force in unprofitable activities, particularly in some of its packaging lines. About 2,000 of its 36,000 employees are expected to be affected by the retrenchment.

The company said sales for the full year could be about 15 per cent higher than last year, in spite of government talk of raising taxes on beer and soft drinks, San Miguel's main product lines which account for about 60 per cent of annual turnover.

Successive increases in the *ad valorem* tax on beer since late 1990, which hit 60 per cent at the beginning of 1991, hurt San Miguel sales.

"We have not fully recovered from the volume declines in sales since then," the company said.

Domtar losses grow after special charge

By Robert Gibbens in Montreal

DOMTAR, the big Canadian forest products and building materials group, reported improved second-quarter operating results. But after restructuring charges, net losses emerged at C$39m (US$32.5m), against losses of C$37m a year earlier. Sales rose 3 per cent to C$484m.

Business paper sales rose 5 per cent and market pulp, newsprint and groundwood specialities 4 per cent, and building materials 6 per cent, but packaging products declined.

Norwegian chemicals group reveals flat profits

By Karen Fossli in Oslo

DYNO INDUSTRIER, the diversified Norwegian group with main interests in chemicals, has reported flat first-half pre-tax profits of NKr154m, ($26.4m) and warned of little increase in sales in the second six months.

Operating profits edged ahead in the first half to NKr254m from NKr249m a year earlier, on turnover of NKr3.83bn, against NKr3.93bn.

The company warned that it was unlikely that markets for Dyno's main products would improve significantly during the remainder of the year. Improved profits had to be achieved through restructuring and rationalisation measures.

Mr Tom Jebsen, executive, said Dyno was in the middle of a restructuring programme which had seen the closure of an explosives plant in the US and three plastics plants in Scandinavia. Work was under way to close a domestic powder resins production plant.

Group operating expenses in the first six months of this year were reduced by NKr100m to NKr3.36bn.

Group second-quarter pre-tax profit fell by NKr17m to NKr107m. Operating profit declined by NKr17m to NKr134m while revenue slid to NKr1.95bn from NKr2.08bn.

NEWS IN BRIEF

Nova makes steady recovery

NOVA, the Alberta natural gas transporter and petro-chemical producer, is emerging quickly from its 1989-91 over-expansion problems, writes Robert Gibbens.

Second-quarter net profits were C$41m (US$34.10m) or 10 cents a share, a turnround from losses of C$6m or 4 cents, a year earlier. Revenues fell to C$750m from C$778m.

First-half net profits rose to C$73m or 18 cents a share, from C$32m or 8 cents, on revenues of $1.5bn, down from $1.6bn.

■ **Export Development Bank** (BRE) of Poland has reported that the public sale of 47.5 per cent of its shares, which valued the group at $23m, and ended last week, was oversubscribed, **Christopher Bobinski writes from Warsaw.**

BRE said 2 per cent of its equity has been allocated to Girocredit Bank of Austria. Other leading shareholders included two Polish private companies, Realbud, a construction group, and Galtex, a food and textiles exporter and retailer, with 5 per cent each.

■ **Elders Pastoral**, New Zealand's second-biggest livestock group, has been sold to its managers, by Fosters' Brewing, its former Australian owner, **writes Terry Hall from Wellington.**

The price was not disclosed but assets of NZ$20m (US$10.9m) were transferred.

Mr Trevor Kamins, managing director, said the company had returned to profitability after reducing losses over the past year.

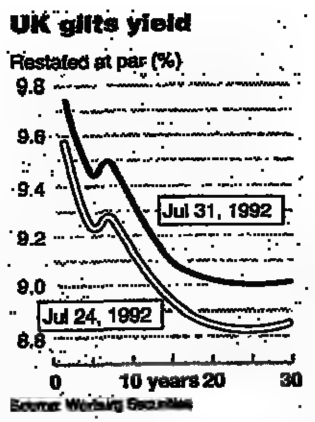
■ **Petro-Canada**, the country's second-biggest integrated oil company which was partially privatised in 1991, earned net profits of C$38m or 18 cents a share in the first half, against losses of C$149m or 49 cents a year earlier, on revenues of C$2.3bn, against C$2.5bn, **writes Robert Gibbens.**

The result benefited from accounting changes, but the company attributed the turnround to reduced overheads.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Putting the argument for underfunding the PSBR



THE British government is in a predicament. Because of its commitments to the European exchange rate mechanism it cannot cut base rates.

At the same time, it has ruled out fiscal measures to stimulate the economy by pledging to rein in public spending. Meanwhile, calls from industrial leaders for the government to do something about the long recession are getting louder.

So what can the government do to appease its critics, other than to sit tight until the economic cycle takes its course? One avenue, about which there has been much speculation recently, would be to underfund the public sector borrowing requirement deliberately.

This would mean breaking with the full-fund rule whereby the authorities are obliged to fund the net total of maturing debt, the PSBR, and any underlying increase in the foreign exchange reserves by sales of debt outside the banking and building societies sectors.

Mr Roger Bootle, chief economist at Midland Montagu, argued recently that underfunding would stimulate the economy by leading to lower long rates of interest and higher equity prices, thereby raising wealth levels and reducing the cost of capital to companies. It would automatically imply an increase in the rate of growth of the money supply.

Speculation that the authorities might choose to follow this route has been gathering strength if only because a number of economists, such as Mr Bootle, have argued in its favour. Furthermore, the Bank of England has not cut the prices of a tap stock that has been sitting on its books for three weeks, giving the impression it is in no hurry to sell.

Because of this, attention this week will focus on the possible announcement of a gilts auction to be held on August 26 – the last Wednesday of the month.

The Bank's unofficial auction schedule means that the market expects an auction roughly every two months. If there is no announcement then some will jump to the conclusion that the authorities have decided to under-fund.

This could be a wrong conclusion. The Bank is still ahead of its schedule. Last week's final monetary figures showed that net official gilt sales in the year to June were £10.3bn. It could therefore afford to skip an auction in the quiet month of August. But would a decision by the authorities to underfund have the desired effect of easing monetary conditions?

"The effect might be large, or it might be small, but it would surely be in the right direction," says Mr Bootle.

Mr Nigel Richardson, at Warburg Securities argues that the move could have a negative effect.

"A decision to underfund would not result unambiguously in a lower level of yields. It might indicate to some people that the Bank of England had decided there was not enough institutional demand for gilts or, more significantly, it might place a question mark over the long-term direction of policy.

"If the government is desperate enough to consider easing through underfunding, it might be prepared to consider rate cuts or a realignment within the ERM," he said.

Many analysts therefore believe the Bank will go ahead with the auction anyway and are wondering instead, what kind of stock will be issued.

The Bank will probably sell stock into areas where it perceives demand to be strong – namely longer dated stock for the domestic market.

In spite of better-than-expected overseas sales of gilts in June, revealed in the Bank's final monetary figures last week, overseas demand appears to have weakened in July.

Sterling weakness and fears that French voters may reject the Maastricht Treaty in a referendum on September 20 have made overseas investors nervous.

Last week, traders were saying that anxiety about whether or not Mr Norman Lamont, the chancellor, could withstand pressure from industry and from within his own Conservative Party to devalue sterling was adding to jitters.

Emma Tucker

EUROPEAN BONDS

Doubts about Maastricht Treaty trouble the markets

EUROPE'S government bond markets have had a terrible summer, tumbling to the bottom of the performance tables in June and July. Concern about the future of the Maastricht Treaty on economic and monetary union, and worries that the Bundesbank intends to keep German interest rates high for the rest of this year have troubled the markets in recent weeks, and these factors are likely to dominate the bond markets in the foreseeable future.

The Italian, Ecu, Spanish and French markets were the worst performers in July with losses of 3.53 per cent, 2.36 per cent, 1.98 per cent and 1.23 per cent respectively in local currency terms, according to Kemper Investment Management. Meanwhile, the dollar bloc and Japan gave the best returns in local currency terms. The Canadian government bond market gained 4.57 per cent, followed by Australia (3.87 per cent), New Zealand (3.6 per cent), US (2.78 per cent) and Japan (2.67 per cent).

The European markets – particularly the high-yielding ones – were thrown into chaos after Denmark rejected the Maastricht Treaty. Now, they are focusing on the French referendum on September 20.

Last week, French bonds tumbled on fears that the next opinion polls would show growing disenchantment with European economic and monetary union. Unemployment continues to rise, doing little for the popularity of the government, which is keen to secure a yes vote.

A French vote against Maastricht would not help the Italian and Spanish governments to stick to their convergence policies, although Italy is preoccupied with its own political problems. The resignation of the Italian foreign minister last week appeared to undermine the credibility of the month-old government and came as a shock to the Italian government bond market – which suffered a sharp setback.

Sara Webb

GERMAN BONDS

Selling again lifts average yields

IT COULD be that now is a very good time to buy German bunds.

After all, it may be that the Bundesbank's move to increase the discount rate just over a fortnight ago – by 0.75 of a percentage point to 8.75 per cent – represented the high point in the Bundesbank's battle against inflation.

Following good inflation data last week, which should mean that July's annual figure falls to 3.3 per cent, the question is: are the effects of the Bundesbank's policies now being felt?

All that is needed, if this is the case, is a couple of months of declining growth in M3 money supply. Then the bank will be free to start cutting rates again . . . and bund yields will tumble.

Unfortunately for the optimists, M3 grew at an annualised 8.7 per cent in June and a revised 8.8 per cent in May – inconveniently far from the Bundesbank's target of 3.5 per cent to 5.5 per cent. Money supply growth was cited as the main reason for the interest rate rise on July 16, and the target seems unlikely to be dropped in spite of attempts to discredit the bank's logic in relying on such an indicator.

When rates were increased investors sold decisively, and they sold again last week when Mr Helmut Schlesinger, Bundesbank president commented that there was no imminent prospect of an interest rate cut.

Since July 16, average bund yields have climbed from 8.32 per cent to just short of 8.4 per cent. The yield on the 10-year benchmark bund has climbed to 8.15 per cent, up from about 8 per over the last month.

This contrasts markedly with investors' attitudes to the Bundesbank's December rate increase. This prompted heavy buying, with average yields tumbling to 7.97 per cent by the third week of January, compared with 8.8 per cent at the end of November.

Then, investors believed interest rates had peaked. In the event, they had not – at least not in the case of the discount rate. Now, investors seem less willing to take risks unsupported by evidence of a change in policy.

This is perhaps not surprising, given the attractions of the shorter end of the yield curve: why suffer the opportunity cost of investing in 10-year-bunds when the return on bunds with one-year maturity is 9.19 per cent?

Moreover, the 3.3 per cent annual inflation figure expected for July is attributable less to a fall in underlying inflationary pressures than to "one-off" factors: the impact of the higher D-Mark on fuel prices; the removal of the effect of last year's energy tax from the comparable figures, and sharply lower prices for fruit and vegetables as a result of a bumper crop this year.

Thus this figure alone is not going to induce a relaxation of policy, especially if the money supply figures do not show a dramatic improvement.

The best many investors are hoping for this year is no change in monetary policy. It remains possible that the Lombard rate will also have to be increased during the course of the next few months.

David Waller

US MONEY AND CREDIT

Eyes focus on July unemployment figures

ALL eyes will be focused on the July unemployment figures due on Friday, amid signs that the number of non-farm jobs created last month might have been more than 100,000.

This would be a significant reversal on the June loss of 117,000 jobs, which was taken as a sign of the weakness of the US recovery, pleasing the bond market and contributing to the logic behind the last discount rate cut by the Federal Reserve.

The jobs data this Friday could dampen the bond market's recent bullish mood, just as any sign of a more positive trend in the US economy is negative for bond investors.

On the other hand, a growing number of players in the Treasury market would probably agree that inflation is no longer an immediate concern, the US economy seems more stagnant than recovering and the lack of consumer confidence will continue to weaken the recovery for some months to come.

It was the very weakness of consumer confidence last Tuesday that caused the yield curve – the graphic depiction of interest rates on various maturities ranging from short-term notes to the 30-year benchmark bond – to flatten for the first time in months.

Another factor was a second-quarter 1.4 per cent growth rate for gross domestic product, down from 2.9 per cent in the first three months of 1992. This number told the US economic story quite well.

The 11.6 point drop in the Conference Board's consumer confidence index caused the Treasury market to stage quite a rally on Tuesday, marking the 30-year paper a point higher and sending the yield down to 7.43 per cent. On Wednesday the yield even briefly touched a very low 7.35 per cent.

Profit-taking and uncertainty about the next round of statistics took some of the gloss off the rally.

By Friday evening the 30-year bond had eased ⅜ on the day, but still up enough on the week to produce a yield of 7.455 per cent, down from 7.56 per cent a week earlier.

While some speculate that the 30-year yield could drop below 7 per cent if the Fed goes ahead with another interest rate cut in early September, the analysts at Donaldson, Lufkin & Jenrette (DLJ) say the market is assuming the economy to be far weaker than it really is.

DLJ predicts the yield will end 1992 at just below 8 per cent, which assumes the US recovery will strengthen during the third and fourth quarters.

Other statistics to be watched this week are today's national purchasing managers' index, which could rise to 56 from 53.8 in June; and the index of leading economic indicators which is due out tomorrow and could be down by 0.3 per cent.

Alan Friedman

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 9 3/4 94	200	[illegible]	[illegible]	4.73
ABN 9 1/8 94	[illegible]	[illegible]	[illegible]	[illegible]
AETNA LIFE & CAS 7 3/4 16	[illegible]	[illegible]	[illegible]	[illegible]
ALBERTA PROVINCE 8 5/8 96	[illegible]	[illegible]	[illegible]	[illegible]
ALBERTA PROVINCE 9 3/8 95	[illegible]	[illegible]	[illegible]	[illegible]
AMERICAN EXPRESS ZERO 00	[illegible]	[illegible]	[illegible]	[illegible]
AMERICAN GENERAL 9 3/4 95	[illegible]	[illegible]	[illegible]	[illegible]
AMERICAN INTL 0 04	[illegible]	[illegible]	[illegible]	[illegible]
ASIAN DEV BANK 0 04	[illegible]	[illegible]	[illegible]	[illegible]
ASIAN DEV BANK 8 96	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRALIA 11 95	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 7 3/4 97	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 8 1/2 00	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 9 1/4 96	[illegible]	[illegible]	[illegible]	[illegible]
BANK OF TOKYO 8 3/8 96	[illegible]	[illegible]	[illegible]	[illegible]
BARCLAYS JERSEY 10 3/8 95	[illegible]	[illegible]	[illegible]	[illegible]
BAYER USA 8 1/4 96	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 8 97	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 8 3/4 98	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 9.2 10	[illegible]	[illegible]	[illegible]	[illegible]
BELGIUM 9 5/8 98	[illegible]	[illegible]	[illegible]	[illegible]
BFCE 7 3/4 97	[illegible]	[illegible]	[illegible]	[illegible]
BFCE 9 1/4 95	[illegible]	[illegible]	[illegible]	[illegible]
BNP 8 5/8 96	[illegible]	[illegible]	[illegible]	[illegible]
BOOTS 9 97	[illegible]	[illegible]	[illegible]	[illegible]
BP AMERICA 9 3/4 99	[illegible]	[illegible]	[illegible]	[illegible]
BP CAPITAL 9 1/8 94	[illegible]	[illegible]	[illegible]	[illegible]
BPCA FINANCE 8 3/8 98	[illegible]	[illegible]	[illegible]	[illegible]
BRITISH GAS 8 3/8 99	[illegible]	[illegible]	[illegible]	[illegible]
BRITISH TELECOM FIN 8 3/4 99	[illegible]	[illegible]	[illegible]	[illegible]
QUEENSLAND GOVT 10 1/4 95	100	[illegible]	[illegible]	5.66
RALSTON PURINA 11 3/4 95	150	[illegible]	[illegible]	6.24
REED PUBLISHING 9 5/8 97	150	[illegible]	[illegible]	6.72
SAINSBURY 9 1/8 96	150	[illegible]	[illegible]	6.28
SAS 10 99	200	[illegible]	[illegible]	7.81
SAS 10 1/8 95	150	[illegible]	[illegible]	6.33

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on July 31

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Banks hungry for capital as Basle deadline nears

BANKS ARE still hungry for capital, as the deadline for meeting Basle capital adequacy ratios at the start of next year approaches.

Investment bankers are responding by creating some ingenious ways of structuring debt offerings so that they will meet investors' rather picky appetites and satisfy regulators.

While many US banks have taken advantage of the strong stock and credit market conditions prevailing for most of this year to raise fresh capital, their European counterparts have generally been slower to move.

Consequently, the next wave of bank capital financing is likely to be concentrated among European – and perhaps Japanese – banks.

Last week four financial institutions – J.P. Morgan of the US, Crédit Local and Société Générale of France, and Germany's Landeskreditbank, – raised $700m of subordinated floating-rate notes (FRNs) in the Eurobond market, using an unusual "collar" structure, incorporating minimum and maximum interest rate levels. The notes qualify as lower tier 2 capital under Basle capital adequacy rules.

At this point in the US interest cycle, with US rates at historical lows – money market rates are around 3¼ per cent – investors are less keen to lock in fixed-rate returns, and an initially higher coupon appears attractive.

Kidder Peabody, which is active in the secondary floating-rate note market, had noted a strong appetite among Swiss investors for outstanding bank FRNs with the same structure. A spate of such issues, then known as mini-max floaters, was launched in 1985, but have since been a virtually forgotten casualty of the fall-out from the collapse of the perpetual FRN market in 1986.

Some of the bankers who remember the panic-selling of the crashing floating-rate note market remain sceptical about these instruments.

A floating-rate note incorporating an interest rate cap and floor is structured in this way: effectively, the issuer buys a cap from the investor, and then sells a cap in the market to hedge that position. The issuer effectively sells a floor to the investor and hedges that position by buying one in the wholesale market. However, the issuer benefits from the spread between the wholesale market and the terms offered to the FRN investor.

"Investors are not getting fair value for the cap, but they do not care, because they are being offered a high initial coupon to compensate," explained one banker.

Consequently, the market for such paper is limited to specific pockets of demand. The $700m of paper launched so far has already stretched that demand, according to some underwriters. While the $300m J.P. Morgan deal launched by Kidder Peabody met strong demand due to the rarity of the name, later deals met a less favourable reception. The pocket of Swiss demand was only accessible to credits of double-A and above. European markets are effectively closed to lesser credits, which will have to find other sources of capital.

Most likely, they will turn to the US, where the market in dated subordinated fixed-rate debt has been expanding. However, the heavy supply of paper in the US market has caused yield spreads over US Treasuries to widen by about 20 basis points in the last month.

The US market is virtually the only source of tier 1 capital, apart from straightforward equity financing. The US market in preferred stock has been active recently. European banks such as France's Banque Indosuez and Spain's Banesto have raised preferred stock, and others are set to follow.

Bankers said investors were buying preferred shares which offer a premium over rates available on dated bonds sufficient to repay principal after 17 to 20 years. Because of the steep shape of the US yield curve, preferred shares are also attractive to borrowers.

A NUMBER of European banks are considering raising capital in the US using an innovative structure which offers greater flexibility, writes Tracy Corrigan.

Barclays Bank, National Westminster Bank, the Royal Bank of Scotland, and Sweden's S-E Banken were among the banks looking at the structure, investment bankers said. With little opportunity to raise capital in Europe, many European banks are turning to the more receptive US market.

The structure would allow banks to raise upper tier 2 capital, with the option later to convert it into tier 1 capital. Certain proportions of both types of capital must be held by banks to meet the Basle capital adequacy standards, which come into force at the start of next year. Although UK banks are among the best capitalised, most banks are seeking means of raising increasingly scarce capital.

Under the structure, a bank issues undated subordinated debt, which qualifies as upper tier 2 capital. But this can be exchanged, at the option of the issuer, into preferred stock, which qualifies as tier 1 capital. The issuer would pay a premium to investors for the conversion. It is based on a recent offering by Bankers Trust.

● A further seven borrowers have added D-Mark options to their medium-term note (MTN) programmes. From today, borrowers can issue D-Mark medium-term notes under multi-currency programmes, following a liberalisation of rules announced a month ago by the German Bundesbank.

Previously, D-Mark MTNs could only be issued under a separate programme, which involved substantial costs including legal and listing fees. Bankers said the cost of adding a D-Mark option to an existing programme amounted to around $2,000. A D-Mark MTN programme would cost over $100,000 to set up.

The seven borrowers are: Norway's Export Finance, Finnish Export Credit, Halifax Building Society, Woolwich Building Society, Monte dei Paschi di Siena, the Italian bank, GMAC Europe, the European finance arm of General Motors of the US, and Compagnie Bancaire, the French financial services group.

Merrill Lynch Bank in Germany is acting as arranger of all these D-Mark options. Halifax has abandoned its planned D-Mark MTN programme, which had run into technical problems prior to the liberalisation.

Another 10 borrowers are to add similar options to their programmes this week, in addition to Abbey National and Nationwide Building Society, which did so earlier. On Friday, the European Bank for Reconstruction and Development signed the first new programme to incorporate a D-Mark option. The signing of the Ecu1bn programme was delayed to allow the D-Mark option to be included.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Penta-Ocean Constn.(e)#†	200	1996	4	2.25	100	Yamaichi Intl.(Eur.)	2.250
Kuraray Co.(d)#†	150	1995	4	2.25	100	Daiwa Europe	2.250
L.Term Crdt.Bk.Japan(g)†	150	2002	10	(g)	100	LTCB Intl.	-
L.Term Crdt.Bk.Japan(h)†	150	2002	10	(h)	100	LTCB Intl.	-
L.Term Crdt.Bk.Japan(i)†	200	2004	12	(i)	100	LTCB Intl.	-
Eagle 3 Ltd(m)‡†	22	1996	4	(m)	100	Daiwa Europe	-
Aires Finance(n)‡†	39.291	1995	3.33	(n)	97.00	Paribas Cap.Mkts.	-
LKB(p)‡†	150	2002	10	(p)	100	J.P.Morgan Secs.	-
Crdt.Local De France(q)‡†	250	2002	10	(q)	99.85	Goldman Sachs Intl.	-
J.P.Morgan & Co.(r)‡†	200	2002	10	(r)	99.85	Kidder Peabody Intl.	-
Societe Generale(s)‡†	100	2002	10	(s)	99.85	Kidder Peabody Intl.	-
STERLING							
DSL Bank(b)†	100	2002	10	9¼	100.365	S.G.Warburg	9.193
YEN							
NKK Corp†	20bn	1999	7.25	6.10	101.845	Yamaichi Intl.	5.783
NKK Corp†	40bn	2002	10.25	6.20	101.825	Nikko Europe	5.958
Mazda Motor Corp(j)‡†	20bn	1996	4.25	(j)	100.15	Daiwa Europe	-
Mazda Motor Corp(k)‡†	10bn	1996	4	(k)	100.15	Banca Del Gottardo	-
Toho Gas Co.†	10bn	2002	10	6.15	101.5	Nomura Intl.	5.946
CANADIAN DOLLARS							
Finnish Export Crdt.†	150	1996	4	6¾	101.10	Kidder Peabody Intl.	6.434
Crdt.Local De France†	800	2002	10	zero	47.098	Wood Gundy	-
FRENCH FRANCS							
LKB(f)†	300	2000	7.830	8¼	99.85	BNP Cap.Mkts	8.807
AUSTRALIAN DOLLARS							
EIB(a)†	350	1999	7.961	7¾	98.882	Hambros Bank	7.961
VICFIN(o)†	150	2002	10	9	101.35	Hambros Bank	8.792
D-MARKS							
Deutsche Fin.Neth.†	500	1997	5	8½	102	Deutsche Bank	8.007
SWISS FRANCS							
Kuraray Co.(c)♦★★†	100	1996	-	3.75	100	Credit Suisse	3.750
GUILDERS							
EIB(l)‡†	500	2002	9.75	(l)	100.31	Rabobank Nederland	-
LUXEMBOURG FRANCS							
Commerzbank Intl†	1bn	2002	10	9.125	101.90	Credit Europeen	8.831
Thomson Brandt Intl★★†	600	1995	3.25	9⅝	102.20	KBL	8.779
Bayerische VB. Intl.†	1.5bn	2002	10	9⅛	102.45	KBL	8.750

★★Private placement. §Convertible. #With equity warrants. ‡Floating rate note. ♦Variable rate note. †Final terms. a) Part of an A$1.5bn global bond programme. Non-callable. Fees undisclosed. b) Subordinated issue. Non-callable. c) Callable on 5/8/94 at par and on 5/8/95 at 100.50pc. Exercise premium fixed at 2.60%. d) Exercise premium fixed at 2.57%. e) Exercise premium fixed at 2.63%. f) Fungible with outstanding 1bn FFr issue. Fees undisclosed. g) Tranche A of $510 issue. Coupon pays 6 month Libor plus 50bp for first 5 years, then pays 60bp thereafter. Callable at par on coupon dates from 20/8/1997. h) Tranche B of $510 issue. Coupon pays 7.20% for first 5 years, then pays 6 month Libor plus 75bp thereafter. Callable at par on coupon dates from 20/8/1997. i) Tranche C of $510 issue. Coupon payable semi-annually, pays 7.60% until 20/8/1999, then on subsequent coupon dates there is a call option at par, if not exercised the bonds will pay 6 month Libor plus 75bp. j) Coupon pays 3 month Yen Libor plus 0.275%. k) Coupon pays 3 month Libor pays 0.275%. l) coupon pays 3 month Amsterdam interbank offered rate less 60bp. Call option after 5 years at par. m) Backed by a pool of US mortgages. Coupon pays 100bp above 6 month Libor. Non-callable. n) Coupon pays 200bp above 6 month Libor, payable semi-annually. Repackaging of cash flows due under sales agreement. o) Full name Victoria Public Financing Authority. Amount increased from A$125m. Non-callable. p) Coupon payable semi annually. Coupon pays ⅛ below 6 month Libor. Minimum interest rate 5%, maximum 10%. q) Amount increased from $200m. Coupon pays ⅛ below 6 month Libor. Minimum interest rate 5%, maximum 10%. r) Coupon pays ⅛ below 3 month Libor. Minimum interest rate 5%, maximum 10%. Non-callable. s) Coupon pays ⅛ below 6 month Libor. Note: Yields calculated on ISMA basis.

Anthony Harris

Major opts for incredibility

MR JOHN MAJOR sounds more and more like King Lear defying the storm. He now intends, according to the latest leak, to make sterling the strongest currency in the EMS, displacing the D-Mark. One must suppose that this nonsense is supposed to send the speculators who have the pound on the floor rushing for cover, and so permit a cut in interest rates, rather than make himself look silly; but it does not matter much. He still looks silly.

Currencies, as this column pointed out last week, are not effectively defended by huffing and bluffing. The markets have grown doubtful about the British commitment to its present EMS parity. They marked sterling down when Mr Major attempted to raise the stakes by claiming that if there were a realignment, sterling would remain pegged to the D-Mark. A reasonable man might read a warning here; but not Mr Major.

How does he suppose dealers will receive this attempt to steal Mr Bérégevoy's rather tattered suit of clothes – and in broad daylight? The charitable will assume that the leak is ill-informed; those who believe it will conclude that the prime minister is getting desperate, as well he might after the battering of the last week.

In terms of economics, the project is laughable. France has succeeded, after some years of pain, in meeting every convergence criterion, and in making the franc credibly strong. Inflation is below German levels, the fiscal and foreign balances are sound, and the economy is still achieving some sort of growth. Despite all this, the markets demand a modest interest premium on the franc. They have very long memories.

In the British case, they need no memories at all. Inflation may be dipping into the Maastricht range, thanks to the most stubborn recession for 60 years; but in almost every other respect, one would think that things could hardly be worse – until the next official figures show that they are indeed worse. The foreign and fiscal deficits are unsustainably high, hopes of even a feeble recovery have been deferred for another year; and above all, even the most respectable business leaders are openly discussing devaluation.

Seen from overseas, this is a simple case of "I told you so". The DM2.95 rate was regarded as implausible from the start. I was still in Washington when Britain's decision to join the EMS was announced. It was a some days before I stopped getting calls from friends in the Fed, the German Embassy and other parts of the international policy community. Many of the callers started with the same words: "Has your government gone mad, or what?" Perhaps this accounts for my own persistent doubts.

It is different at home, of course. It is only in the last few days that high-level doubts about the entire strategy have come into the open; and these doubts will percolate down only slowly. Popular opinion is still astonishingly supportive of the hair-shirt strategy, and this is Mr Major's last remaining high card. Mr Bérégevoy must know that his chances of remaining prime minister beyond next March are almost invisible, but Mr Major has some years to go.

Political stability does help to reassure markets, but only up to a point. There has been no financial panic at the apparent internal collapse of the Bush administration in the US, and only a modest tremor so far at the prospect that French voters may get their revenge on an unpopular government by voting down the Maastricht treaty.

The fact is that the markets are never as credulous as politicians hope. They are therefore much calmer than the politicians about the possibility of all their cherished plans going wrong. They have begun for some time now to discount an EMS realignment, and indeed a modest sterling adjustment.

They will now edge towards discounting something worse, and something sooner. It will only look like a crisis when they think the change will come in a matter of weeks, not months. Not just yet, anyway. Until then discretion, not bluffing, is the better part of valour.

WORLD STOCK MARKETS

CANADA

TORONTO

4:00 pm prices July 31

MONTREAL

4:00 pm prices July 31

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA

TORONTO

TOKYO - Most Active Stocks

Friday 31 July 1992

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

GERMANY

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA

HONG KONG

MALAYSIA

SINGAPORE

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FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F

Abbey Unit Tst Mngrs (1000)H

Brown Shipley & Co Ltd—Contd.

Bryant Unit Tst Mngt Ltd (1400)F

CCL Unit Trusts Ltd (1400)F

CIS Unit Managers Ltd (1000)F

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible] The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. [illegible]

HISTORIC PRICING: The letter H denotes [illegible]

FORWARD PRICING: The letter F denotes [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 - 379 - 0444.

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Stewart Ivory Unit Tst Mgrs Ltd (1200)H

[illegible]

Lazard Investors Ltd

[illegible]

Local Authorities Mutual Invest. Tst.

[illegible]

M & G Securities Ltd

[illegible]

Morgan Grenfell Investment Funds Ltd

[illegible]

Morgan Stanley International

[illegible]

Murray Johnstone UT Mngmt

[illegible]

Phillips & Drew Fund Management Ltd

[illegible]

Rothschild Asset Management

[illegible]

J. Rothschild Fund Managers Ltd.

[illegible]

Stewart Ivory & Co Ltd

[illegible]

Thornton Unit Managers Ltd

[illegible]

Sun Alliance Unit Tst Mngmt Ltd (1200)F

[illegible]

Sun Life of Canada Unit Mgrs Ltd (1000)H

[illegible]

Sun Life Trust Mngmt Ltd (1200)H

[illegible]

Swiss Life Unit Tst Man Co Ltd (1200)F

[illegible]

TSB Unit Trusts (1200)H

[illegible]

T.U. Fund Managers Limited (1200)H

[illegible]

Target Trust Mngrs Ltd (1200)F

[illegible]

Templeton Unit Trust Managers Ltd (1200)F

[illegible]

Thornton Unit Managers Ltd (1200)F

[illegible]

Touche Remnant Unit Tst Mgmt Ltd

[illegible]

Tyndall Funds

[illegible]

United Charities Unit Trusts (1000)H

[illegible]

Waverley Unit Tst Mngmt Ltd (1000)F

[illegible]

Wesleyan Unit Trust Mgrs Ltd

[illegible]

Whittingdale Unit Tst Mgmt Ltd (0830)F

[illegible]

Woolwich Unit Trust Managers Ltd (1700)H

[illegible]

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

James Capel Fund Managers Ltd

Cent. Bd. of Fin. of Church of England

Charities Official Inv Fd

Charity Fixed Int Fd/Charity Equity Fd

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Fleming Charity Portfolio

Robert Fleming Asset Mngmt Ltd

Foreign & Colonial Unit Management Ltd

Funds in Court

Henderson Unit Trust Management Ltd

INVESCO MIM Management Ltd

Lazard Brothers & Co. Ltd

[illegible]

INSURANCES

Abbey Life Assurance Co Ltd

Allied Dunbar Assurance Plc

American Life Insurance Co UK

Barclays Life Assur. Co Ltd

Black Horse Life Assurance

Britannia Life Ltd

Canada Life Group

Cannon Assurance Ltd

Century Life Plc

Citibank Life

City of Westminster Assurance

Clerical Medical/Fidelity Investments

Clerical Medical Investments Group

Colonial Mutual Group

Commercial Union Group

Cornhill Insurance PLC

Crown Financial Management Ltd

Eagle Star Life Assurance Co Ltd

Eagle Star Insur./Midland Assur.

Equitable Life Assurance Society

Equity & Law

Family Assurance Society

Friends' Provident

General Accident

General Portfolio Life Ins. Plc

Guardian Royal Exchange

Growth & Sec. Life Assce. Soc. Ltd

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assur. Ltd

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General

Life Association of Scotland

Lincoln National Life

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Assurance Ltd

M & G Life and M & G Pensions

MGM Assurance Ltd

Manulife Group

Merchant Investors Assurance

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Britannia Assce Co Ltd - Contd.

NEL Pensions Ltd

NM Life Assurance Ltd

N & P Life Assurance Ltd

National Mutual Life

National Provident Institution

Norwich Union Insurance Group

Norwich Union Pension Management Ltd

Liberty Life Assurance Co Ltd

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OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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Gartmore Fund Managers (IoM)
PO Box 32, Douglas IoM 0624 627610
Intl Grth 5¼ 458.8 458.8 492.0 0.94

Leopold Joseph Fund Mngrs (IoM) Ltd
PO Box 52 Athol St Douglas IoM 0624 661020
LJ International 5¼ 86.29 86.29 92.89

Mercury Fund Managers IoM Ltd
11 Hill Street, Douglas IoM 0624 662255
Merc IoM Fund 5 98.00 98.00 104.6 6.3
Merc Intl Bond 5 50.43 50.43 53.02 8.7

Sun Life Management (IoM) Ltd
PO Box 178, Douglas, IoM 0624 622444
Secure High Income 1.0492 1.0492 1.1249

Unibank Scandinavian Fund Ltd
23 Bucks Road, Douglas, IoM 0624 626484
Scandinavia Fd 5 127.80 136.22 1.0

ISLE OF MAN (REGULATED)(**)

ATC Fund Management (SG) Ltd
SG International $10.72

Appleton Financial Advisers Ltd
Appleton Capital Trust 94.0 100.8

CMI Fund Mngrs (IOM)
Traders Fund Ltd $17.10 18.48
*Dealings Wednesday

City Financial Admin (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd
DL Sterling 114.38 120.1 5.3
DL International $1.46 1.55 2.2

Equity & Law International Fund Mgs Ltd
European Equity 149.80 157.64
Far Eastern Equity 2.2440
North Amer Equity 1.7640
UK Equity 152.67 160.68
Global Equity 104.50 109.98
UK Gilt & Fxd Int 99.53 104.75

Equitilink International Mngt Ltd
First Aust Prime Inc Inv Co Ltd NAV July 30 C$13.04
First Aust Prime Inc Inv Co Ltd NAV July 30 US$11.08
NAV Diluted to reflect exercise of all Wnts C$12.88 US$10.62

Fidelity Investment (CI) Ltd
Sterling American £2.519 2.681

Fleming Group
Deutschland Inv Co NAV DM16.53

Foreign & Colonial Mngmt (Jersey) Ltd
US$ Cash $10.78
Sterling Cash £12.14
US$ Bonds $15.31
Multicurrency Bonds $20.80
Sterling Bonds £13.36
D Mark Bonds DM10.37
Ecu Bonds Ecu11.33
UK Equities £9.83
US Equities $16.84
Japanese Equities Y527
Contl Euro Equities DM15.97
UK Negative Equities £13.54
US Negative Eq. $9.87
Japanese Negative Eq. Y1041
Gold $10.12

John Govett Management (Jersey) Ltd

For Hallbern Fund Mngrs see Prudential Fund Mngrs

INVESCO MIM International Limited
All Funds deal daily except where indicated.
American Equity Inc £1.468 1.575 3.08
Japan Inc & Grth £1.105 1.185 2.60
Capital Deposit £36.79 36.80

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

Asian Convertibles & Income Fd (Cayman)
NAV Jul 30 $10.44

Austro-Hungary Fund Ltd
NAV Jul 30 $9.62

BEA Associates

Global Asset Management — Contd.
GAM High Yield $130.68
GAM Hong Kong $377.78
GAM International Fd $156.63
GAM Japan $333.22
GAM Nth America Fd $134.02
Do Yen Y10029

Orbis Investment Management Ltd
Orbis Global Eqty $11.98 12.59
Orbis Optimal Eqty $17.64 18.53
Orbis Leveraged Eqty $17.62 18.63
* Prices on July 23 Next Pricing July 29 Weekly Pricing

Orbitex Bahamas Ltd

ORIENT Growth Fd

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES AND MONEY MARKETS

Focus on Europe

TWO events this week will help to persuade dealers whether the tensions in Europe's Exchange Rate Mechanism are about to grow, *writes James Blitz.*

UK clearing bank base lending rate 10 per cent from May 5, 1992

The first is the Bundesbank Council Meeting on Thursday. Only a few analysts think the German central bank could raise the all-important Lombard rate this time. The German discount rate was raised three weeks ago, and the Bundesbank will need more time to see what impact this has had on M3 money supply. Analysts were also comforted by comments last week from Mr Helmut Schlesinger, the Bundesbank President, that the Germans are concerned about the impact that their policies are having on other European countries. A Lombard rate rise would turn the calls for an EMS realignment in the UK and Italy into a deafening clamour.

The markets will also look carefully at the latest opinion poll on the French referendum on the Maastricht treaty, to be held on September 20. In the last poll, held on July 1, 37 per cent said that they would vote Yes to Maastricht and 28 per cent said that they would vote No. However, the market is expecting a considerable increase in the anti-Maastricht vote this time in a poll which should be published on Wednesday in the weekly, *Paris Match.*

Tensions inside the ERM could relax if the dollar manages to break out of its tight ranges against the D-Mark. Analysts believe that the dollar could challenge DM1.50 if the National Association of Purchasing Managers index shows a rise today. The big indicator of the week will be the non-farm payroll figure for July, with the market expecting a rise of 109,000.

£ IN NEW YORK

July 31	Close	Previous Close
£ Spot	1.9270-1.9280	1.9260-1.9270
1 month	1.11-1.09pm	1.10-1.09pm
3 months	3.28-3.25pm	3.23-3.21pm
12 months	11.60-11.50pm	11.5-11.4pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Jul 31	Bank of England Index	Morgan** Guaranty Changes %
Sterling	92.3	-20.2
U.S. Dollar	60.3	-18.3
Canadian Dollar	99.2	-2.1
Austrian Schilling	111.1	+12.9
Belgian Franc	113.0	-0.9
Danish Krone	111.5	+5.2

POUND SPOT - FORWARD AGAINST THE POUND

Jul 31	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.9150 - 1.9275	1.9195 - 1.9205	1.11-1.09cpm	6.88	3.28-3.25pm	6.80
Canada	2.2690 - 2.2790	2.2775 - 2.2785	0.92-0.87cpm	4.71	2.91-2.84pm	5.05
Netherlands	3.1975 - 3.2075	3.1975 - 3.2075	⅛-parcpm	0.23	⅜-⅛pm	0.39
Belgium	58.45 - 58.60	58.45 - 58.55	3-2cpm	0.51	11-5pm	0.55
Denmark	10.9100 - 10.9525	10.9100 - 10.9200	½-1¼oredis	-0.96	1⅝-3dis	-0.85
Ireland	1.0660 - 1.0680	1.0670 - 1.0680	0.05-0.01cpm	0.34	0.06-parpm	0.11
Germany	2.8345 - 2.8465	2.8430 - 2.8450	¼-parpfpm	0.26	¾-⅛pm	0.35
Portugal	240.50 - 242.20	241.20 - 242.20	110-179cdis	-7.17	253-379dis	-5.23
Spain	180.65 - 181.30	181.00 - 181.30	47-53cdis	-3.31	140-150dis	-3.20
Italy	2141.15 - 2151.40	2148.50 - 2149.50	12-14liredis	-7.26	29-32dis	-5.68
Norway	11.1475 - 11.1938	11.1475 - 11.1575	⅛-⅝oredis	-0.40	⅛-1¼dis	-0.29
France	9.5860 - 9.6210	9.6000 - 9.6100	par-¼cdis	-0.16	¼-⅝dis	-0.18
Sweden	10.3000 - 10.3420	10.3000 - 10.3100	1⅝-2¼oredis	-2.26	5-6¼dis	-2.18
Japan	244.00 - 245.10	244.00 - 245.00	1⅜-1¼ypm	6.13	3⅞-3⅝pm	6.13
Austria	19.95 - 20.02	19.99 - 20.02	1½-pargropm	0.34	3¼-1pm	0.42
Switzerland	2.5240 - 2.5375	2.5275 - 2.5375	⅜-¼cpm	1.48	1⅛-⅞pm	1.58
Ecu	1.3915 - 1.3965	1.3935 - 1.3945	0.10-0.15cdis	-1.08	0.19-0.24dis	-0.62

Commercial rates taken towards the end of London trading. Six-month forward dollar 6.32-6.27pm 12 Month 11.60-11.50pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 31	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.9150 - 1.9275	1.9195 - 1.9205	1.11-1.09cpm	6.88	3.28-3.25pm	6.80
Ireland†	1.7965 - 1.8070	1.8035 - 1.8045	1.10-1.07cpm	7.22	3.13-3.06pm	6.86
Canada	1.1815 - 1.1880	1.1860 - 1.1870	0.20-0.22cdis	-2.13	0.51-0.55dis	-1.79
Netherlands	1.6610 - 1.6720	1.6680 - 1.6690	0.90-0.93cdis	-6.58	2.68-2.73dis	-6.48
Belgium	30.40 - 30.55	30.45 - 30.55	15.50-18.00cdis	-6.59	47.00-51.00dis	-6.43
Denmark	5.6750 - 5.7020	5.6825 - 5.6875	3.60-3.90oredis	-7.92	10.70-11.30dis	-7.74
Germany	1.4725 - 1.4830	1.4795 - 1.4805	0.81-0.82pfdis	-6.61	2.40-2.42dis	-6.51
Portugal	125.45 - 125.90	125.45 - 125.55	135-155cdis	-13.86	360-420dis	-12.43
Spain	93.90 - 94.40	94.25 - 94.35	79-82cdis	-10.24	235-240dis	-10.07
Italy	1113.50 - 1120.45	1119.00 - 1119.50	12.00-13.00liredis	-13.40	34.00-36.00dis	-12.51
Norway	5.8000 - 5.8230	5.8075 - 5.8125	3.30-3.60oredis	-7.13	10.15-10.65dis	-7.16
France	4.9915 - 5.0050	5.0000 - 5.0050	2.92-2.97cdis	-7.06	8.74-9.04dis	-7.03
Sweden	5.3510 - 5.3865	5.3600 - 5.3700	3.93-4.19oredis	-9.08	11.95-12.40dis	-9.07
Japan	126.95 - 127.55	127.30 - 127.40	0.07-0.08ydis	-0.71	0.19-0.20dis	-0.61
Austria	10.3900 - 10.4250	10.4200 - 10.4250	5.55-5.90grodis	-6.59	16.20-17.20dis	-6.41
Switzerland	1.3095 - 1.3210	1.3180 - 1.3190	par-1cdis	-4.55	0.01-0.02dis	-0.05
Ecu	1.3750 - 1.3820	1.3780 - 1.3790	0.92-0.90cpm	7.92	2.64-2.61pm	7.62

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

July 31	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta.	Ecu
£	1	1.920	2.843	244.5	9.605	2.533	3.203	2149.	2.278	58.50	181.2	1.394
$	0.521	1	1.481	127.3	5.003	1.319	1.668	1119	1.186	30.47	94.38	0.726
DM	0.352	0.675	1	86.00	3.378	0.891	1.127	755.9	0.801	20.58	63.74	0.490
YEN	4.090	7.853	11.63	1000.	39.28	10.36	13.10	8789	9.317	239.3	741.1	5.701
F Fr.	1.041	1.999	2.960	254.6	10.	2.637	3.335	2237	2.372	60.91	188.7	1.451
S Fr.	0.395	0.758	1.122	96.53	3.792	1	1.265	848.4	0.899	23.10	71.54	0.550
N Fl.	0.312	0.599	0.888	76.33	2.999	0.791	1	670.9	0.711	18.26	56.57	0.435
Lira	0.465	0.893	1.323	113.8	4.470	1.179	1.490	1000.	1.060	27.22	84.32	0.649
C$	0.439	0.843	1.248	107.3	4.216	1.112	1.406	943.4	1	25.68	79.54	0.612
B Fr.	1.709	3.282	4.860	417.9	16.42	4.330	5.475	3674	3.894	100.	309.7	2.383
Pta	0.552	1.060	1.569	134.9	5.301	1.398	1.768	1186	1.257	32.28	100.	0.769
Ecu	0.717	1.377	2.039	175.4	6.890	1.817	2.299	1542	1.634	41.97	130.0	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

EURO-CURRENCY INTEREST RATES

Jul 31	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	10 - 9⅞	10 - 9⅞	10¼ - 10⅛	10⅜ - 10¼	10⅜ - 10⅛	10⅜ - 10⅛

MONEY RATES

July 31	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	9.60-9.70	9.70-9.80	9.70-9.80	9.70-9.80	9.70-9.80	9.75
Paris	9⅞-10⅛	10⅛-10¼	10⅛-10⅜	10¼-10⅜	10¼-10⅜	9.60
Zurich	7⅞-8¼	8⅜-8¼	-	8⅜-8¼	-	-
Amsterdam	9.68-9.75	9.58-9.66	-	9.58-9.66	-	-
Tokyo	4⅛-4⅛	4-4⅛	-	4⅛-4⅛	-	-
Milan	14⅞-15	16⅛-16⅞	-	16⅛-16⅞	-	-
Brussels	-	9⅞-9⅞	-	9⅞-9⅞	-	-
Dublin	10⅛-10⅜	10⅛-10⅜	10⅜-10½	10⅜-10½	10⅜-10⅝	-

LONDON MONEY RATES

Jul 31	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	11½	10	10¼	10⅜	10⅜	10⅜
Interbank Bid	9¼	9⅞	10⅛	10¼	10⅛	10⅛
Sterling CDs	-	-	10⅛	10⅛	10⅛	10⅛
Local Authority Deps.	9⅞	10	10¼	10⅛	10⅛	10⅛
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	10½	9⅞	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	10¼	10⅜	10⅜	10⅜
Treasury Bills (Buy)	-	-	9⅞	9⅞	9⅞	-
Bank Bills (Buy)	-	-	9¾	9⅞	9⅞	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	3.27	3.29	3.40	3.61
SDR Linked Dep. Offer	-	-	6⅛	6⅛	6¼	6⅜
SDR Linked Dep. Bid	-	-	5⅞	6⅛	6¼	6⅛
ECU Linked Dep. Offer	-	-	11⅛	11⅛	11⅛	10⅞
ECU Linked Dep. Bid	-	-	10⅞	10⅞	10⅞	10⅞

Treasury Bills (sell); one-month 9⅞ per cent, three months 9½ per cent; six months 9⅜ per cent; Bank Bills (sell): one-month 9⅞ per cent, three months 9⅞ per cent; Treasury Bills, Average tender rate of discount 9.6127 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day July 31, 1992. Agreed rates for period August 26, 1992 to September 22, 1992, Scheme I: 11.27 p.c., Schemes II & III: 11.46 p.c. Reference rate for period July 1, 1992 to July 31, 1992, Scheme IV&V: 10.188 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 10½ from July 1, 1992: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6), Deposit £100,000 and over held under one month 6½ per cent; one-three months 9 per cent, three-six months 9 per cent, six-nine months 8½ per cent; nine-twelve months 8½ per cent; Under £100,000 7 per cent from May 6, 1992. Deposits withdrawn for cash 5 per cent

PHILADELPHIA SE £/$ OPTIONS

£31,250 (cents per £1)

Strike Price	Calls Aug	Calls Sep	Calls Oct	Calls Dec	Puts Aug	Puts Sep	Puts Oct	Puts Dec
1.825	9.45	9.70	9.70	9.77	-	0.47	1.30	2.87
1.850	7.20	7.30	7.49	7.72	0.08	0.89	2.08	3.40
1.875	4.78	5.19	5.59	6.05	0.35	1.56	2.98	4.97
1.900	2.79	3.48	4.04	4.46	0.92	2.47	4.10	6.35
1.925	1.39	2.26	2.87	3.51	2.05	3.78	5.58	7.86
1.950	0.58	1.37	2.02	2.61	3.72	5.45	7.26	9.58
1.975	0.13	0.77	1.35	1.95	5.82	7.38	9.09	11.45

Previous day's open int: Calls 358,103 Puts 556,299 (All currencies)
Previous day's volume: Calls 10,819 Puts 10,732 (All currencies)

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JULY 31 1992 US Dollar Index	% chg ($) since 31/12/91	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/91	Gross Div. Yield	THURSDAY JULY 30 1992 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1992 High	1992 Low	Year ago (approx)
Australia (69)	142.36	-5.6	109.93	114.60	109.54	127.26	-3.6	4.29	142.77	110.30	115.20	109.97	127.48	153.88	140.94	149.76
Austria (19)	154.61	-7.2	119.38	124.46	118.96	118.99	-9.3	2.45	154.05	119.02	124.30	118.65	119.13	186.70	150.55	176.15
Belgium (42)	147.30	+2.0	113.74	118.57	113.34	110.79	-0.4	5.55	146.69	113.33	118.36	112.98	110.69	152.27	135.87	130.03
Canada (114)	128.52	-5.7	99.24	103.46	98.89	110.24	-3.4	3.17	128.20	99.05	103.44	98.74	109.87	142.12	124.32	139.10
Denmark (35)	240.31	-10.0	185.56	193.45	184.91	185.81	-13.4	1.89	239.52	185.05	193.27	184.48	185.69	273.94	226.81	257.17
Finland (15)	71.54	-8.3	55.24	57.59	55.04	60.77	-10.2	2.32	68.74	53.28	56.28	53.72	59.68	89.80	69.74	99.81
France (104)	156.16	+3.8	120.59	125.70	120.15	122.54	+0.2	3.67	158.41	122.39	127.81	122.00	124.31	168.75	148.06	130.77
Germany (64)	119.29	+1.7	92.11	96.04	91.78	91.78	-0.8	2.49	120.32	92.96	97.10	92.67	92.67	129.80	114.67	108.86
Hong Kong (54)	244.47	+38.8	188.78	196.80	188.12	242.76	+37.8	3.38	242.74	187.54	195.86	186.97	241.11	259.55	176.36	169.57
Ireland (16)	158.58	-5.5	122.45	127.66	122.02	123.86	-8.5	4.26	158.74	122.64	128.09	122.26	124.43	173.71	151.78	153.88
Italy (78)	62.57	-17.0	48.32	50.37	48.14	52.30	-19.1	3.99	61.45	47.48	49.58	47.33	51.38	80.86	61.30	76.13
Japan (473)	94.83	-30.2	73.22	76.34	72.97	76.34	-28.8	1.11	92.41	71.40	74.57	71.19	74.57	140.95	88.70	132.28
Malaysia (69)	243.47	+13.7	188.00	195.98	187.33	234.51	+4.5	2.68	241.67	186.88	195.15	186.29	233.16	250.47	212.49	224.95
Mexico (18)	1386.80	-0.3	1070.87	1116.35	1067.08	4717.84	+2.0	1.27	1385.11	1070.12	1117.64	1066.85	4710.56	1789.77	1303.41	1138.20
Netherland (25)	162.23	+6.3	125.27	130.59	124.83	123.54	+3.7	4.54	161.18	124.53	130.06	124.15	122.89	167.29	147.08	140.80
New Zealand (14)	46.02	-2.0	35.54	37.05	35.41	44.81	-2.9	5.07	44.81	34.62	36.16	34.52	43.57	48.52	42.01	47.82
Norway (23)	169.12	-5.4	130.59	136.15	130.13	133.37	-7.9	1.88	171.74	132.69	138.58	132.28	135.67	192.95	161.26	198.56
Singapore (38)	209.73	-4.5	161.95	168.83	161.37	156.85	-5.0	2.13	208.54	161.11	168.27	160.62	155.11	229.63	192.76	197.40
South Africa (61)	205.55	-17.4	158.72	165.46	158.15	172.97	+0.0	2.98	204.45	157.95	164.97	157.47	172.37	263.60	194.00	241.34
Spain (49)	139.93	-10.5	108.05	112.65	107.67	99.98	-12.8	5.88	139.20	107.54	112.32	107.21	99.39	161.72	136.46	149.24
Sweden (30)	189.47	+4.6	146.30	152.53	145.79	150.55	+1.3	2.73	187.57	144.91	151.36	144.48	149.25	200.28	173.09	192.72
Switzerland (62)	112.07	+11.7	86.54	90.22	86.24	91.61	+8.7	2.34	112.05	86.57	90.42	86.32	91.80	113.88	95.99	94.32
United Kingdom (228)	182.83	-1.3	141.18	147.16	140.67	141.18	-3.9	5.27	183.61	141.85	148.14	141.41	141.85	200.07	165.85	176.12
USA (522)	172.74	+1.7	133.39	139.06	132.92	172.74	+1.7	2.90	172.59	133.34	139.27	132.94	172.59	172.74	160.92	156.94
Europe (790)	147.31	-0.3	113.75	118.59	113.36	113.99	-3.0	4.22	147.76	114.16	119.23	113.82	114.43	156.88	139.31	138.42
Nordic (103)	176.29	-4.1	136.13	141.91	135.65	133.67	-7.2	2.37	175.25	135.40	141.41	134.99	133.05	188.52	169.29	188.72
Pacific Basin (717)	101.55	-25.9	78.41	81.75	78.14	82.61	-24.6	1.49	99.29	76.71	80.12	76.48	81.13	141.97	94.40	133.66
Euro - Pacific (1507)	120.06	-15.3	92.71	96.64	92.37	95.70	-15.8	2.85	118.89	91.86	95.93	91.57	94.90	145.21	113.80	135.86
North America (636)	169.97	+1.3	131.25	136.84	130.81	168.48	+1.4	2.92	169.81	131.19	137.03	130.81	168.32	169.97	158.70	155.75
Europe Ex. UK (562)	125.79	+0.5	97.13	101.26	96.81	98.29	-2.3	3.47	126.06	97.40	101.74	97.12	98.60	132.98	121.81	116.07
Pacific Ex. Japan (244)	167.79	+11.8	129.57	135.09	129.12	149.79	+11.3	3.59	167.12	129.11	134.87	128.73	149.16	175.31	149.00	147.32
World Ex. US (1700)	122.06	-14.9	94.25	98.26	93.92	98.14	-15.0	2.85	120.92	93.42	97.58	93.14	97.35	146.91	116.45	137.69
World Ex. UK (1994)	133.99	-9.5	103.46	107.87	103.11	118.86	-9.1	2.66	133.05	102.79	107.35	102.49	118.11	150.56	127.21	140.04
World Ex. So. Af. (2161)	137.80	-8.5	106.41	110.94	106.04	120.42	-8.7	2.67	137.01	105.85	110.56	105.54	119.82	153.05	130.04	142.51
World Ex. Japan (1749)	162.32	+0.9	125.34	130.68	124.92	146.61	+0.2	3.40	162.35	125.43	131.02	125.07	146.68	165.40	153.20	150.27
The World Index (2222)	138.21	-8.6	106.72	111.26	106.35	120.91	-8.6	2.87	137.41	106.16	110.88	105.85	120.31	153.70	130.66	143.15

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes during the week ending 31/7/92: Addition: SCA A (Sweden). Deletion: Hoesch (Germany).

FINANCIAL TIMES STOCK INDICES

	July 31	July 30	July 29	July 28	July 27	July 24	1992 High	1992 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.31	88.68	89.00	89.13	89.17	89.19	89.75	85.11	127.4	49.18
Fixed Interest	105.14	105.40	105.77	105.83	105.84	105.80	106.35	97.15	106.35	50.53
Ordinary	1803.8	1806.9	1815.1	1785.6	1767.0	1789.1	2149.7	1767.0	2149.7	49.4
Gold Mines	90.9	91.0	93.0	91.5	90.5	93.1	160.6	83.6	734.7	43.5
FT Act All-Share	1143.14	1148.53	1153.43	1133.69	1124.19	1138.01	1326.36	987.46	1326.36	61.92
FT-SE 100	2399.8	2411.6	2423.2	2373.4	2346.0	2377.2	2737.8	2348.0	2737.8	986.9
FT-SE Eurotrack 100	1067.77	1068.92	1077.69	1058.38	1056.98	1052.53	1199.58	1052.53	1199.58	900.45
FT-SE Eurotrack 200	1101.07	1106.13	1112.56	1090.65	1087.01	1088.40	1248.79	1087.01	1248.79	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

	Notes	Price £	Wk % change	Amnt £m	Interest due	Last xd	City line
Exch 12¼pc 1992		100⅛xd	—	1,268	Fe25 Au25	28.7	1265
13½pc 1992		100⅞	-1	1,757	Mr22 Se22	14.2	1266
Treas 8¼pc 1993		99⅞xd	-1	900	Au18 Fe18	13.7	5047

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES – Gross: Contractual rate of interest payable not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. Compounded Annual Rate. Int Cr. Frequency at which interest is credited to the account.

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

OTHER CURRENCIES

CURRENCY RATES

FT LONDON INTERBANK FIXING

CHICAGO

BASE LENDING RATES

	%		%		%
Adam & Company	10	Credit Lyonnais	10	McDonnell Douglas Bnk	10
Allied Trust Bank	10	Cyprus Popular Bk	10	Midland Bank	10
AIB Bank	10	Dao Heng Bank Plc	11	Mount Banking	10
● Henry Ansbacher	10	Duncan Lawrie	10	NatWestminster	10
B & C Merchant Bank	10.5	Equatorial Bank plc	10	Northern Bank Ltd	10
Bank of Baroda	10	Exeter Bank Limited	10.5	Nykredit Mortgage Bank	10.5
Banco Bilbao Vizcaya	10	Financial & Gen Bank	10	Provincial Bank PLC	14
Bank of Cyprus	10	● Robert Fleming & Co	10	● Rea Brothers	10
Bank of Ireland	10	Robert Fraser & Ptnrs	10.5	Roxburghe Bank Ltd	11
Bank of India	10	Girobank	10	Royal Bk of Scotland	10
Bank of Scotland	10	● Guinness Mahon	10	● Smith & Williamson Secs	10
Banque Belge Ltd	10	Habib Bank AG Zurich	10	Standard Chartered	10
Barclays Bank	10	● Hambros Bank	10	TSB	10
Brit Bk of Mid East	10	Hampshire Trust Plc	13.5	Unibank plc	10
● Brown Shipley	10	Heritable & Gen Inv Bnk	10	● United Bk of Kuwait	10
CL Bank Nederland	10	● Hill Samuel	10	Unity Trust Bank Plc	10
Citibank NA	10	C. Hoare & Co.	10	Western Trust	10
City Merchants Bank	10	Hongkong & Shanghai	10	Whiteaway Laidlaw	10
Clydesdale Bank	10	Julian Hodge Bank	10	Yorkshire Bank	10
Co-operative Bank	10	● Leopold Joseph & Sons	10		
Coutts & Co	10	Lloyds Bank	10		
		Meghraj Bank Ltd	10		

● Members of British Merchant Banking & Securities Houses Association

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	Wk% change	Div gross	Dividends paid	Last xd	City line
Abbott Labs	h	18⅝xd	1.5	90c	FeMyAuNv	19.7	1503
♥Allegheny & W		328p	16.0	30c	–	–	–
Amdahl		738p	–19.5	10c	NvMrJnAu	31.1	–
Amer Cyanamid		32⅛	6.3	$1.65	MrJeSeDe	4.8	–
Amer Express		11[illegible]xd	–4.5	$1.00	FeMyAuNv	29.5	1594
Amer T & T		22[illegible]xd	0.8	$1.32	FeMyAuNv	27.3	1597
Ameritech		36⅛	1.4	$3.52	FeMyAuNv	28.3	–
BankAmerica		23[illegible]xd	1.1	$1.20	FeJeSeDe	19.5	1744
Bankers NY		31⅞xd	0.2	$2.80	ApJyOcJa	27.12	1745
Bell Atlantic		24⅝	–2.0	$2.60	FeMyAuNv	4.7	–
BellSouth		27½	–1.3	$2.76	FeMyAuNv	5.4	–
♥Bethlehem Steel		7[illegible]xd	3.3	–	MrJeSeDe	6.2	1821
Bowater		1063pxd	1.0	$1.20	OcJaApJy	9.3	1894
CPC	h	25⅛xd	–	$1.20	JaApJyOc	25.5	2263
♥Cadiz Land Inc		142p	–16.5	–	–	–	–
California Engy		826p	4.2	–	–	–	–
Campbell Soup		19⅝xd	1.3	70c	OcJaApAu	2.7	2050
Chase Manhattan		13[illegible]xd	–1.4	$1.20	FeMyAuNv	24.7	2109
Chrysler		11¼xd	13.2	60c	ApJyOcDe	17.8	2136
Citicorp		10¼xd	–1.8	–	–	23.10	2141
Colgate-Palm		27¼xd	1.4	$1.24	FeMyAuNv	22.7	2184
Cont'l Bank		913p	–2.1	60c	DeMrJeSe	31.8	–
Dana		21[illegible]xd	2.1	$1.60	MrJeSeDe	28.5	2306
Data General		478p	1.9	–	–	–	–
♥Decora Inds		121p	18.3	–	–	–	–
Dun & Brad		30⅜	–1.6	$2.29	MrJeSeDe	13.2	–
Eaton		41[illegible]	3.0	$2.20	FeMyAuNv	2.2	2410
Echlin		10¼xd	1.9	70c	JaApJyOc	30.9	3046
FPL		18[illegible]xd	1.0	$2.44	MrJeSeDe	28.5	–
Fluor		20[illegible]	2.8	48c	JaApJyOc	18.8	2509
Ford Motor		23[illegible]xd	2.7	$1.60	MrJeSeDe	28.7	2615
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

	Notes	Price	Wk% ch'nge	[illegible]
St Gobain FFr		137½	5.4	[illegible]
Sharpe & Fisher		[illegible]	–6.5	[illegible]
♦Shaw (A)		[illegible]	2.5	[illegible]
Sheffield Insuls		[illegible]	–4.0	[illegible]
■Spring Ram		119	–7.8	[illegible]
■Stanmin		7½	–21.1	[illegible]
■Tarmac		[illegible]	–3.8	[illegible]
♦Tilon	†	146	–	[illegible]
■Travis Perkins		139	–7	[illegible]
♦Tudor		[illegible]	–	[illegible]
■Unigroup		[illegible]	–	[illegible]
Ward Group	‡	[illegible]	–	[illegible]
♦Waterhouse		[illegible]	–	[illegible]
■Wickes		[illegible]	–9.3	[illegible]
■Wilshaw		14¼	1.8	[illegible]
■Wolseley		322	2.9	[illegible]

BUSINESS SERVICES

	Notes	Price	Wk% ch'nge	[illegible]
■ADT $		[illegible]	1.1	[illegible]
For ATA Selection see Broadcasting				
Adam & Harvey		213	–5	[illegible]
♦Air London	†	81	–	[illegible]
African Lakes		[illegible]	–4.1	[illegible]
■AutoTed Sec	†	121	–5.5	[illegible]
■BET	‡	[illegible]	[illegible]	[illegible]
■BNB Res		[illegible]	–4.3	[illegible]
BPP		249	–6	[illegible]
Barbour Index		[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING - GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

Authorised by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

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INVESTMENT TRUSTS - Cont.

MEDIA - Cont.

OIL & GAS

PACKAGING, PAPER & PRINTING - Cont.

STORES - Cont.

MINES - Cont.

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

INVESTMENT COMPANIES

MEDIA

OTHER FINANCIAL

PROPERTY

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

OTHER INDUSTRIAL MATERIALS

MOTORS

STORES

PACKAGING, PAPER & PRINTING

MINES

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution, this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed, dealings permitted under rule 535(4)(a)
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Not officially UK listed, dealings permitted under Rule 535(2)
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♣ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend excludes a special payment.
t Indicated dividend: cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
v Subject to local tax.
x Dividend includes a special payment: Cover does not apply to special payment.
E Auction basis.
F Dividend based on prospectus or other official estimates for 1990-91.
G Assumed dividend after pending scrip and/or rights issue.
H Dividend based on prospectus or other official estimates for 1991
K Dividend based on prospectus or other official estimates for 1992-93
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1991-92.
N Dividend based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1991
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend total to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1290 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service

Additions. British Bio-Technology (Section: Health & Household); EFM Japan and Warrants, M & G Recovery Fund (Income, Capital, Geared and Package Units shares)(Inv. Trusts): London & Edinburgh 8½pc Cm Prf. 2013 (Property) and Country Casuals (Stores).

Deletions: Worcester Group Ord. and Cnv Prf. (Building Materials); Contra Cyclical Inv. (Income, Capital and Zero Div Prf. shares)(Inv. Trusts) and Yeoman Intl. (Other Financial).

4:00 pm prices July 31

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅝	11⅛	AAR Corp x	0.48	3.8	20	806	12⅞	12⅝	12⅝	
26	18	A L Labs A	0.16	0.9	78	1269	18⅞	18⅝	19⅝	+⅛
58¼	52⅞	AMP Inc x	1.52	2.6	21	985	58	54⅞	54⅞	–½
80¼	60⅞	AMR				246845	66⅞	66¼	66⅛	+¼
2⅛	1⅜	ARX			2	2	1⅝	1⅛	1⅝	–1
53½	38¼	ASA	2.00	5.0	25	158	40⅞	40	40⅛	
34⅛	26⅞	Abbott Lab	0.80	2.6	21	6451	30½	30	30⅛	+¼
13⅞	12	Abitibi Pr	0.50	3.7	7	9	13½	13¼	13½	
11⅝	10⅞	ACM Gvt In x	0.96	8.4		218	11⅞	11¼	11⅜	+⅛
10⅝	9⅛	ACM GvOpp	0.94	9.6		138	9⅞	9¾	9¾	+⅛
9½	8⅛	ACM Gvt Sp	0.82	8.7		285	u9½	9⅜	9⅜	
11¼	10¼	ACM Gvt Se	0.96	8.8		190	11	10⅞	10⅞	–⅛
10	8⅞	ACM Man	0.98	10.7		312	9⅛	9⅛	9⅛	
12⅞	10⅞	ACM Managd	1.21	10.9		112	11⅛	11⅛	11⅛	+⅛
11⅞	4⅞	Acme Cleve	0.40	5.7	13	251	7	6⅞	7	
6⅛	4⅛	Acme Elect			4	7	4⅞	4⅞	4⅞	+⅛
33¼	16⅛	Acuson			12	361	19	18⅞	18¾	+¼
19½	18¼	Adams Expr	1.63	8.6	0	49	19	18⅞	19	–⅛
49⅝	28½	Ad Micro	3.00	8.9		245	33⅞	33½	33⅞	+⅛
21½	7½	Ad Micro P	3.00	33.6		33815	8⅞	8½	8⅞	
9⅛	5	Advest Grp	0.16	2.8	80	160	5⅞	5⅝	5⅝	+⅛

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices July 31

NASDAQ NATIONAL MARKET

4:00 pm prices July 31

MONDAY INTERVIEW

Herald of market reform

Jacob Frenkel, governor of the Bank of Israel, speaks to **Hugh Carnegy**

Mr Jacob Frenkel is an Israeli who made a name for himself as an economist on the international stage. But a year ago, he decided to trade in the world for the more limited confines of home.

As economic counsellor and director of research at the International Monetary Fund, Prof Frenkel could count himself as one of the world's most influential economists. He rose from Jerusalem's Hebrew University to a professorship of international economics at the University of Chicago and later to the pinnacle of his profession at the IMF.

Then in mid-1991, Mr Frenkel accepted an offer from Mr Yitzhak Shamir, then prime minister, to return home to serve as governor of the Bank of Israel, the country's central bank. An important job, no doubt, but somewhat parochial after the heady heights of the IMF, not to mention rather less well paid. He now probably nets less than 20 per cent of the $150,000 tax-free salary he enjoyed in Washington.

Mr Frenkel, however, clearly seems to be enjoying the change. "Very often you feel happier driving your own little car than driving a huge Mercedes that is rented," he says. "That's what it boils down to."

His appointment did not meet with universal approval in Israel. A right-wing cabinet minister objected to bringing in a man who had been abroad for 18 years and had not shared the military reserve duties of his fellow-citizens during his exile. To be an emigrant from the Jewish state carries a stigma – the Hebrew word for emigrant, *yored*, literally means "one who is going down".

Mr Frenkel's arrival at the central bank was meant to be a signal of change in Israel at a time when the country was experiencing a tide of mass immigration from what was then still the Soviet Union. Although the flow has sharply declined in recent months, it has to date brought some 400,000 newcomers. The national aim is to attract some 1m immigrants by 1995, swelling the population by a fifth.

Mr Shamir's government said that in order to cope with the economic challenges posed by immigration, market reforms had to be unleashed to revitalise a long-stagnant economy. As Bank of Israel governor, Mr Frenkel was billed as a key player in the reform process, with his statutory role as chief economic adviser to the government.

It was clearly this challenge that attracted him to the job. Mr Frenkel calls it "one of the most exciting periods in Israel's economic history". But a year into his tenure, it seems legitimate to ask whether Israel's economy really can be reformed and revived.

Mr Shamir's right-wing coalition government, which was defeated in last month's general election, failed to match its economic promises. In fact, huge state spending on housing, both in Israel and on Jewish settlements in the occupied territories, and a stalled privatisation programme have resulted in a big increase in the government's share of the economy, not a decrease. Government spending rose from 50 per cent of GDP in 1988 to 68 per cent in 1991.

Now the Labour party, under Mr Yitzhak Rabin, is back in power. Historically, Labour, with its roots in east European collectivism, is the party which put the country's socialist structures in place in the early days of the state. Indeed, it is tempting to conclude that Zionism, with its emphasis on the welfare of the Jewish people, is eternally at odds with the notion of a market economy. But Jacob Frenkel sees no ideological reasons why Labour cannot succeed where Mr Shamir failed.

"When you speak about the goals of Zionism, those are the goals of providing a homeland for the Jewish people here in Israel – which is viable economically. Those are general political objectives. When it comes to the instruments by which those objectives are achieved, here it is a purely professional question. It is not an ideological issue any more."

Mr Frenkel makes no secret of his high hopes for Mr Rabin's new coalition, which has espoused the need for reform. He says he is convinced of Labour's commitment to a market economy, remarking that it may indeed take the Labour party to grasp the nettle of recasting a system it set up in the first place.

The task facing the new government is certainly great. Immigration has pushed up unemployment to a record 11.5 per cent. Inflation, though falling, is predicted to be at 10 per cent for the year. Exports have declined in the past 18 months. As a result of immigration, the country has a surplus of doctors, dentists, musicians, engineers and academics for whom there are no opportunities. "We now have mining engineers in a country with no mines," says Mr Frenkel.

Most of all, he argues, Israel needs time to cope with the economic problems created by the influx of newcomers. "Look at the unification of Germany," he says. "Multiply [the difficulties] several times and you get the elements of the task Israel has to face."

Somehow Israel has to produce unprecedented, sustained growth that will provide employment for the immigrants and prevent the state sinking under the burden of providing for them. This year, GNP is expected to grow by about 5 per cent, slightly less than last year. That looks impressive. But when population growth is accounted for, and a non-recurring housing boom is stripped out, even these levels of growth are well short of what is required.

Mr Frenkel's prescription is for a radical programme of reform, investment and cuts in social spending. Above all, he wants market reforms – privatisation of the big state industrial holdings, lower taxation for business, open trade policies, foreign exchange liberalisation and a dismantling of the hold on labour markets held by the Labour-affiliated Histadrut trade union federation. "There is no way out from structural reform," he says.

Controversially, perhaps, Mr Frenkel also backs a drive by the government to raise $20bn in foreign borrowing over the next five years. The key to this is winning US loan guarantees for $10bn which Mr Rabin is hoping to secure from President Bush later this month. Such borrowing will dramatically reverse a downward trend in its foreign debt burden. In recent years, Israel reduced the ratio of its foreign debt to GNP to 27 per cent from about 80 per cent. Meanwhile, there is also a domestic debt burden of more than 100 per cent of GNP.

A big government borrowing binge appears to be the exact opposite of the reversal of the state's role in the economy that Israel is supposed to be achieving. But Mr Frenkel defends the borrowing plan, saying it is essential for the government to fund infrastructural investment.

"The logic of this is that the immigrants bring with them a lot of human capital but no physical or financial capital. We have to make sure the physical and financial capital grows at a very fast rate to complement the human capital that is coming to us in a massive flow."

Labour's plans to pump billions of shekels into projects such as communications have the governor's support. "Even I, who thinks that the government should be smaller and should step out of the market place, think this kind of investment is blessed because it does not crowd out private investment, but rather crowds in private investment."

It is here that the real test will come. Will Mr Rabin's Labour-led government also carry out the structural reforms and the cuts in Israel's big welfare programmes that Mr Frenkel says are essential for getting the economy off the ground? As an insurance policy, the governor has worked closely with US officials to frame economic conditions for the loan guarantees designed to try to ensure such reform takes place.

But Mr Frenkel's faith in the new government is such that he says it does not need outside prodding to do the job. "The issue is not philosophical, the issue is the political capacity to implement [the correct policies]. The jury is still out. But I am optimistic."

'It is not an ideological issue any more'

PERSONAL FILE

- **1943** Born in Tel Aviv.
- **1960-63** Served in Israeli Defence Forces chaplaincy corps.
- **1963-68** Studied economics and political science, Hebrew University.
- **1968-71** MA, PhD in economics, University of Chicago.
- **1971-73** Taught economics, Tel Aviv University.
- **1973-90** Taught economics, University of Chicago.
- **1987-91** Economic counsellor, director of research, IMF.
- **1991-** Governor, Bank of Israel, and head of Israeli delegation to Middle East multilateral negotiations on regional economic co-operation.

Mitterrand finds it hard to cool it

Letter from PARIS

France is grinding to its customary summer halt in a tetchy and unpredictable mood. As more than a third of the workforce starts its holiday, the weather is suffocatingly hot, with forecasts of violent thunderstorms. So is the political situation.

Try as it may, the government cannot cool the country's temperature. President François Mitterrand dearly wants to ensure a reasoned, unemotional campaign leading up to the referendum on European union, set for September 20. By that time, he hopes, the disgruntled populace will still be bronzed and relaxed enough to say yes to Maastricht.

Instead, just about everything that can go wrong for the ruling Socialists has gone wrong, creating a build-up of anti-Mitterrand sentiment. A feeling that the government is not entirely in control started to intensify in June when farmers mounted motorway blockades to protest against European agricultural policy reforms, even laying siege to Euro Disneyland. That was nothing like as disruptive as the truckers' spectacular blockade at the start of last month. They were protesting against tough new driving regulations under which offenders can lose their licence if they clock up six penalty points.

While the government deserves credit for not giving in to the truckers' demands to repeal the penalty system, it did look embarrassingly powerless for a few days. The strike also showed how deeply out of touch the government was with the feelings of truckers – who fear European competition – and with most French people, who sympathised despite the inconvenience.

No sooner were the motorways clear than the judiciary started to add to the trouble by casting a haze of moral dubiousness over the Socialists. An examining magistrate in Rennes summonsed Mr Henri Emmanuelli, president of the national assembly and former Socialist party treasurer, to appear in court in mid-September – just before the referendum – to face charges of political corruption. The magistrate, Mr Renaud Van Ruymbeke, observing national tradition, promptly went on holiday, leaving the storm to gather. Mr Mitterrand has defended Mr Emmanuelli, but he has been unable to dispel the suspicion over the party.

Adding to the damage to the Socialists' image, there is the trial of four senior health officials who face charges of allowing HIV-contaminated blood to be distributed to haemophiliacs. Since the trial started in late June, television and newspapers have been full of heart-rending accounts of some of the 1,300 infected by the contaminated blood and the more than 250 haemophiliacs to have died as a result.

Just about everything that can go wrong for the Socialists has gone wrong

The scandal is on everyone's lips. A remark by Mrs Georgina Dufoix, social affairs minister at the time of the infections seven years ago – that she was "responsible but not guilty" – has even been taken up as an ironic popular catchphrase.

The impression that the Socialists are in some way responsible for the tragedy was underlined when three former ministers, including Mr Laurent Fabius, now first secretary of the Socialist party, were called to the witness box last week. While showing suitable respect for the victims, they did not succeed in absolving themselves from responsibility in the public's eyes. One, Mr Edmond Hervé, former junior health minister, admitted knowing that contaminated blood was being distributed.

Against this murky background, it is no surprise that Mr Mitterrand's popularity has taken a fresh plunge, down to 26 per cent in mid-July, according to one poll. That is the lowest rating for the president since before last March's regional elections, when the Socialists' showing was very poor. The polls have even signalled an end to the honeymoon period for Mr Pierre Bérégovoy, the straight-talking prime minister, who took office in April. He received a 32 per cent satisfaction rating, compared with 39 per cent who expressed dissatisfaction.

So far, the government's attempts to focus minds on Europe have gone comically wrong. A television and radio campaign devised by Mr Mitterrand's former presidential campaign publicity manager had to be cancelled after the CSA broadcasting authority warned it might contravene a law against broadcasts of political advertising.

So the government is relying on a press and poster campaign featuring photographs of friendly-looking people mouthing pro-European sentiments: "Maas . . . tricht? Apart from its being unpronounceable, I am rather in favour," is one particularly feeble example. The anti-Maastricht wing of the opposition Gaullist party plans to hit back with its own poster campaign today.

French people on holiday will not be able to escape. Politicians who support and oppose Maastricht are campaigning on beaches and at popular holiday destinations, reminding citizens of their Euro-duty.

How the French will respond is anybody's guess. Most political observers believe there will be a solid majority in favour of Maastricht, but the polls show this is diminishing. At the last count three weeks ago, some 55 per cent favoured ratification.

Will the public get irritated enough with its mostly pro-European political establishment to vote against Maastricht? To take an appropriate French expression, a lot will depend on how people feel in their *tripes* when they return.

William Dawkins

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for Trading on 02.08.92 | Final Prices for Trading on 02.07.92

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	20.85	21.78	24.07
0100	10.65	20.08	22.33
0130	17.70	20.08	22.33
0200	17.64	19.62	21.85
0230	17.64	19.62	21.85
0300	17.44	19.62	21.88
0330	17.44	19.53	21.77
0400	17.43	19.53	21.77
0430	17.43	19.53	21.77
0500	17.43	19.53	21.77
0530	19.53	17.64	17.64
0600	19.53	17.64	17.64
0630	19.53	17.64	17.64
0700	19.53	20.60	22.88
0730	19.53	20.60	22.87
0800	19.53	20.60	22.86
0830	20.76	22.80	25.13
0900	20.85	23.85	26.20
0930	20.85	24.45	26.78
1000	22.07	25.57	27.94
1030	22.07	25.57	27.93
1100	24.17	27.17	29.56
1130	24.17	28.48	30.90
1200	24.17	28.48	30.90
1230	26.89	28.48	30.88
1300	26.89	28.48	30.89
1330	24.17	28.48	30.91
1400	22.35	26.74	28.14
1430	21.06	25.57	27.95
1500	21.06	19.31	19.31
1530	17.69	18.50	18.50
1600	17.69	19.30	19.30
1630	17.69	19.30	19.30
1700	21.06	22.80	25.10
1730	21.06	22.80	25.09
1800	21.06	22.80	25.09
1830	21.06	22.80	25.09
1900	21.06	24.65	27.00
1930	21.06	25.57	27.95
2000	21.06	25.57	27.96
2030	21.06	24.65	27.00
2100	27.50	24.65	27.00
2130	34.83	25.57	27.95
2200	34.83	35.67	38.34
2230	28.00	35.67	38.31
2300	22.00	28.01	28.01
2330	17.71	28.00	28.00
2400	28.00	19.30	19.30

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-456786 between 8.30am and 5.15pm Monday to Friday.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 03.08.92 | Final Prices for Trading on 03.07.92

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	28.00	17.70	17.70
0100	17.71	17.70	17.70
0130	17.71	17.65	17.65
0200	17.70	17.65	17.65
0230	17.70	17.70	17.70
0300	17.70	17.70	17.70
0330	17.70	17.65	17.65
0400	17.70	17.64	17.64
0430	17.64	17.64	17.64
0500	17.64	17.64	17.64
0530	19.61	17.64	17.64
0600	19.61	17.64	17.64
0630	19.61	17.80	17.80
0700	20.56	22.30	24.87
0730	22.81	22.87	25.43
0800	22.81	25.18	27.78
0830	26.11	27.33	29.94
0900	26.19	28.00	30.62
0930	27.99	28.08	30.68
1000	31.01	28.08	30.67
1030	31.01	28.10	30.65
1100	31.01	28.06	30.59
1130	31.01	28.08	30.58
1200	27.99	28.06	30.59
1230	27.99	28.05	30.58
1300	27.99	28.03	30.56
1330	28.19	27.99	30.53
1400	26.76	27.98	30.53
1430	25.57	27.34	29.86
1500	25.57	27.33	29.86
1530	25.57	27.33	29.86
1600	25.57	28.01	30.56
1630	27.99	28.05	30.58
1700	31.01	28.05	30.56
1730	31.01	28.05	30.58
1800	27.38	28.00	30.55
1830	26.46	25.56	28.07
1900	24.44	24.74	27.25
1930	23.33	24.74	27.26
2000	22.87	24.74	27.29
2030	18.75	24.80	27.15
2100	27.89	24.60	27.17
2130	35.50	24.60	27.18
2200	35.50	28.00	30.64
2230	26.84	28.00	30.53
2300	20.00	28.00	28.00
2330	18.75	19.87	19.87
2400	17.78	19.30	19.30

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-456786 between 8.30am and 5.15pm Monday to Friday.

PERSONAL VIEW

The lessons of debt

By Lawrence Summers

Is the developing country debt crisis behind us? The part of the crisis that started in Mexico a decade ago, essentially involving commercial bank loans to middle-income countries, is largely over.

To date, almost 40 per cent of private bank debt in highly indebted countries has been covered by comprehensive debt reduction deals. Arrangements under negotiation for Brazil and Argentina will raise that figure to almost 70 per cent. A collapse of the international financial system has been averted, and commercial banks have strengthened their capital bases by building up reserves large enough to cover likely losses in developing countries.

The two main ingredients of success were economic policy reform in the debtor countries and co-ordinated action by the creditors. Official agencies played an indispensable role in bringing together creditors and debtors, and in helping to avoid divisions among creditors. The mix of effective debt reduction and policy change to tackle fiscal imbalances and structural impediments to growth has been a potent combination.

About $40bn (£21bn) flowed into, or back to, Latin America in 1991, especially to those nations, such as Mexico and Chile, that have gone furthest in policy reform and commercial bank debt reduction. But it is too soon for the world to turn its attention away from debt. A substantial unresolved debt problem of low-income countries remains, especially in sub-Saharan Africa. And there is a new debt problem looming with the $70bn held by the collapsing republics of the former Soviet Union.

Some 26 of the poorest debtor nations, mostly in sub-Saharan Africa, have received official support through concessional lending, debt restructuring and forgiveness. This support is linked to domestic policy reform which improves their economic prospects and debt-servicing capacity. Yet most of them continue to have unsustainable debt burdens. On average, these countries allocate a quarter of export earnings to debt service but only cover half of their contractual obligations. In the last decade, their incomes per head have fallen by 20 per cent to less than a dollar a day.

Growth has been recovering in countries from Ghana to Tanzania, but it will clearly be a long haul. Troubled low-income debtors cannot grow out of their debt problem, the core of which lies in official debt – that is, government-to-government bilateral loans. For many countries, a resolution will involve substantial debt forgiveness, frequently going beyond the 50 per cent reductions of recent agreements under the Paris Club of official bilateral creditors.

Official sources will have to continue to be the main providers of finance for low-income countries, whether in the form of new concessional inflows or debt reduction.

The two main ingredients of success were economic policy reform in the debtor countries and co-ordinated action by the creditors

Relative to income, the sums required may be large for the poor debtors, but they are small for the rich nations. Doubling all net resource flows to severely indebted low-income countries last year would add $16bn – or 1 per cent of what the world spends on defence each year – to the budgets of the industrialised world. This is a small price to pay for reversing the decline in health, education and living standards that would otherwise guarantee a bleak future for more than half a billion people.

Finally, there is the newly emerging debt problem for the former Soviet Union. The debt-servicing difficulties of the past year will not evaporate overnight. It is also clear that the key to restoring creditworthiness lies in a sustained programme of structural reforms. But these will take time to yield benefits and need to be adequately financed.

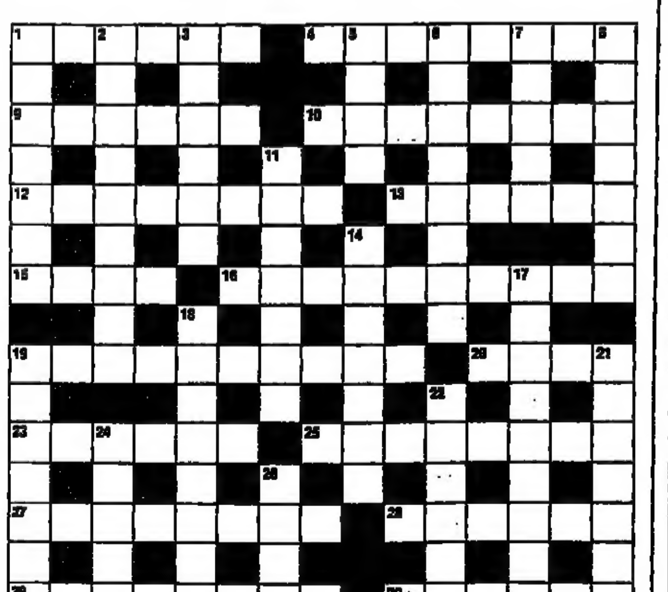
Given that imports have already fallen by 50 per cent since 1990, further import compression is not the answer. A combination of new (largely official) money and debt relief from existing creditors is. To be effective, this must reduce the uncertainty associated with the current short-term roll-over arrangement. A key lesson of the last 10 years is that comprehensive debt relief programmes require official leadership. This lesson is just as applicable to the former Soviet Union.

The crisis in Latin America may have passed, but if we are not to wait another 10 years for the resolution of the crises of sub-Saharan Africa and the former Soviet Union, it is important to apply the lessons of the past. Resolving a debt problem requires strong domestic policy change supported by adequate debt relief, with governments of rich countries and official agencies helping with both resources and action.

The author is chief economist and vice-president of development economics at the World Bank.

CROSSWORD

No.7,915 Set by DANTE



ACROSS

1 Necklace in stock (6)
4 Sticks out for what you've planned to do (8)
9 Shade of a nun seen round a religious establishment (6)
10 Antiquated, so allowed to be held in honour (8)
12 It is used for shelling before the soldiers go in (3,5)
13 It's piled on the floor (6)
15 Where hangings still take place in London (4)
16 Set meal and free bed at hotel (5,5)
19 Legal document that could be a trap (10)
20 Mad to reverse, try going forward (4)
23 Fighting together, all die in confusion (6)
25 Flat delivery on an even pitch (8)
27 About five, porter has time for a drink (8)
28 Open an eye? (6)
29 Not so anxious since replacement's arrived? (8)
30 He remains in the running for a long time (6)

DOWN

1 Struggle to study before an examination (7)
2 Ape has most of the fruit – a nut perhaps (5-4)
3 Bolt and key used by a computer operator (6)
5 A type of wine (4)
6 In France I work on broken dray, a hazard (8)
7 Inexpensive high explosive used in a detonator (5)
8 Novel articles put in case (7)
11 They're played, so raising the devil (7)
14 One who helps another to a seat (7)
17 Thinking of the establishment (9)
18 Get ready for the night (8)
19 Have trouble getting up? (7)
21 One who smashes cars – on the circuit? (7)
22 It may be sucked or blown (6)
24 It is even palindromic (5)
26 Show fond regard for the opposite sex (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 15.